

The background of the cover features a high-angle photograph of two men in business attire walking on a modern building's exterior walkway. The man on the left is wearing a light blue striped shirt and a blue tie, while the man on the right is wearing a white shirt and a dark tie. They are walking on a light-colored stone or concrete surface. In the background, there is a glass and metal railing, and a wall with a grid of dark, horizontal slats. The lighting is bright, casting shadows on the ground.

2010
ANNUAL REPORT
on Corporate Governance

Report on the
Compensation Policy
of the Board of Directors
of Telefónica, S.A.

Telefónica

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01

Annual Report on Corporate Governance

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01 Annual Report on Corporate Governance

A Ownership structure

A.1 Fill in the following table regarding the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
12/28/2009	4,563,996,485.00	4,563,996,485	4,563,996,485

Indicate whether different types of shares exist with different associated rights.

No

A.2 List the direct and indirect holders of significant ownership interests in your organization at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Banco Bilbao Vizcaya Argentaria, S.A.	286,317,371	256,853	6.279
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	1,117,990	229,351,192	5.050
Blackrock, Inc.	0	177,257,649	3.884

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of direct voting rights	% of total voting rights
Banco Bilbao Vizcaya Argentaria, S.A.	BBVA Broker Correduria de Seguros y Reaseguros, S.A.	12,000	0.000
Banco Bilbao Vizcaya Argentaria, S.A.	BBVA Seguros, S.A. de Seguros y Reaseguros	244,800	0.005
Banco Bilbao Vizcaya Argentaria, S.A.	Continental Bolsa SAB (Peru)	53	0.000
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Criteria CaixaCorp, S.A.	229,351,192	5.025
Blackrock, Inc.	Blackrock Investment Management (UK)	177,257,649	3.884

Indicate the most significant movements in the shareholder structure during the year.

A.3 Fill in the following tables on company directors' holding voting rights through company shares:

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Mr. César Alierta Izuel	4,082,445	78,000	0.091
Mr. Isidro Fainé Casas	437,211	0	0.010
Mr. Vitalino Manuel Nafría Aznar	11,300	0	0.000
Mr. Julio Linares López	308,851	1,840	0.007
Mr. Alfonso Ferrari Herrero	571,364	18,999	0.013
Mr. Antonio Massanell Lavilla	2,286	0	0.000
Mr. Carlos Colomer Casellas	564	63,190	0.001
Mr. David Arculus	10,500	0	0.000
Mr. Francisco Javier de Paz Mancho	41,702	0	0.001
Mr. Gonzalo Hinojosa Fernández de Angulo	85,476	436,000	0.011
Mr. José Fernando de Almansa Moreno-Barreda	19,349	0	0.000
Mr. José María Abril Pérez	65,050	84,449	0.003
Mr. José María Álvarez-Pallete López	251,098	0	0.006
Mr. Luiz Fernando Furlán	4,100	0	0.000
Ms. María Eva Castillo Sanz	81,980	0	0.002
Mr. Pablo Isla Álvarez de Tejera	8,601	0	0.000
Mr. Peter Erskine	69,259	0	0.002

% of total voting rights held by the Board of Directors

0.148

Complete the following tables on share options held by directors:

Name or corporate name of director	Number of direct share options	Number of indirect share options	Equivalent number of shares	% of total voting rights
Mr. César Alierta Izuel	493,431	0	493,431	0.011
Mr. César Alierta Izuel 2	10,200,000	0	0	0.223
Mr. Julio Linares López	359,926	0	359,926	0.008
Mr. Carlos Colomer Casellas	49,053	0	0	0.001
Mr. José María Álvarez-Pallete López	224,286	0	224,286	0.005

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Name or company name of related party	Type of relationship	Brief description
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Joint shareholding with Telefónica Móviles España, S.A.U. in Mobipay España, S.A.

A.6 Please indicate any shareholder's agreements reported to the company subject to article 112 of the Securities Market Law. Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes

% of share capital affected:

0.87

Brief description of the agreement:

In accordance with the provisions of article 112, section 2 of the Securities Market Act 24/1988, of July 28 (currently replaced by article 518 section 2 approved by Royal Legislative Decree 1/2010, of July 2, approving the revised text of the Spanish Corporation Law) on October 22, 2009, the Company notified the Spanish Securities Commission in writing that on September 6, 2009 it had entered into a mutual share exchange agreement between Telefónica and China Unicom (Hong Kong) Limited, whose clauses 8.3 and 9.2 are considered a shareholder agreement as per article 518 of the Spanish Corporation Law. By virtue of these clauses, Telefónica may not, while the strategic alliance agreement is in force, offer, issue or sell a significant number of its shares or any convertible security or security that confers the right to subscribe or acquire a significant number of shares of Telefónica, S.A. to any of the main competitors of China Unicom (Hong Kong) Limited. In addition, China Unicom (Hong Kong) Limited undertook not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica's voting share capital (excluding intragroup transfers). This undertaking was deprived of effect as with the aforementioned period of one year having expired.

At the same time, both parties also assumed similar obligations with respect to the share capital of China Unicom (Hong Kong) Limited.

This mutual share exchange agreement, which includes the shareholder agreement, was filed with the Madrid Mercantile Registry on November 24, 2009.

Members of the shareholders' agreement

China Unicom (Hong Kong) Limited
Telefónica, S.A.

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

No

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

As stated in the aforementioned shareholders' agreement, China Unicom (Hong Kong) Limited undertook, from the signing of the agreement (September 6, 2009), not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica's voting share capital (excluding intragroup transfers). This undertaking was deprived of effect, as with the aforementioned period of one year having expired.

The same applies with regard to the same undertaking on the part of Telefónica, S.A. with respect to the shares of China Unicom (Hong Kong) Limited.

A.7 Indicate whether any individuals or corporate bodies currently exercise control or could exercise control over the company in accordance with article 4 of the Spanish Securities' Market Act. If so, identify:

No

A.8 Complete the following tables on the company's treasury shares:

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
55,188,046	16,896	1.210

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
Telefónica Móviles Argentina, S.A.	16,896

Total:	16,896
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Give details of any significant changes during the year, in accordance with Royal Decree 1362/2007:

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital
02/23/2010	45,799,900	0	1.005

Gain/(loss) on treasury shares sold during the year (thousands of euros)

141

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting authorizing the Board of Directors to purchase and/or transfer the treasury shares.

At the General Shareholders' Meeting of Telefónica of June 2, 2010, shareholders renewed the authorization granted by the General Shareholders' Meeting -of June 23, 2009-, for the derivative acquisition of treasury shares, either directly or through Group companies, in the terms literally transcribed below:

"To authorize, pursuant to the provisions of Section 75 et seq. of the Spanish Companies Act [Ley de Sociedades Anónimas, or LSA for its initials in Spanish], the derivative acquisition by Telefónica, S.A. -either directly or through any of the subsidiaries of which it is the controlling company- at any time and as many times as it deems appropriate, of its own fully-paid shares through purchase and sale, exchange or any other legal transaction.

The minimum price or consideration for the acquisition shall be equal to the par value of the shares of its own stock acquired, and the maximum acquisition price or consideration for the acquisition shall be equal to the listing price of the shares of its own stock acquired by the Company on an official secondary market at the time of the acquisition.

Such authorization is granted for a period of 5 years as from the date of this General Shareholders' Meeting and is expressly subject to the limitation that the par value of the Company's own shares acquired pursuant to this authorization added to those already held by Telefónica, S.A. and any of its controlled subsidiaries shall at no time exceed the maximum amount permitted by the Law at any time, and the limitations on the acquisition of the Company's own shares established by the regulatory Authorities of the markets on which the shares of Telefónica, S.A. are traded shall also be observed.

It is expressly stated for the record that the authorization granted to acquire shares of its own stock may be used in whole or in part to acquire shares of Telefónica, S.A. that it must deliver or transfer to directors or employees of the Company or of companies of its Group, directly or as a result of the exercise by them of option rights, all within the framework of duly approved compensation systems referencing the listing price of the Company's shares.

To authorize the Board of Directors, as broadly as possible, to exercise the authorization granted by this resolution and to implement the other provisions contained therein; such powers may be delegated by the Board of Directors to the Executive Commission, the Executive Chairman of the Board of Directors, the Chief Operating Officer or any other person expressly authorized by the Board of Directors for such purpose.

To deprive of effect, to the extent of the unused amount, the authorization granted under Item IV on the Agenda by the Ordinary General Shareholders Meeting of the Company on June 23, 2009."

A.10 Indicate, as applicable, any restrictions imposed by Law or the company's Bylaws on exercising voting rights, as well as any legal restrictions on the acquisition or transfer of ownership interests in the share capital.

Indicate whether there are any legal restrictions on exercising voting rights:

No

Maximum percentage of legal restrictions on voting rights a shareholder can exercise

0

Indicate whether there are any restrictions included in the bylaws on exercising voting rights.

Yes

Maximum percentage of restrictions under the company's bylaws on voting rights a shareholder can exercise

10.000

Description of restrictions under law or the company's bylaws on exercising voting rights

In accordance with Article 21 of the Company Bylaws, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder. In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed, and those held by other shareholders that have granted their proxy to the first-mentioned shareholder shall not be computed, without prejudice to the application of the aforementioned limit of 10 percent to each of the shareholders that have granted a proxy.

The limitation established in the preceding paragraphs shall also apply to the maximum number of shares that may be cast (individually or collectively) by two or more shareholder or companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

Indicate if there are any legal restrictions on the acquisition or transfer of share capital:

No

A.1.1 Indicate whether the General Shareholders' Meeting has agreed to take neutralization measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

B Company Management Structure

B.1 Board of directors

B.1.1 List the maximum and minimum number of directors included in the Bylaws.

Maximum number of directors	20
Minimum number of directors	5

B.1.2 Complete the following chart with board members' details:

Name or corporate name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Mr. César Alierta Izuel	-	Chairman	01-29-1997	05-10-2007	Vote at General Shareholders' Meeting
Mr. Isidro Fainé Casas	-	Vice Chairman	01-26-1994	06-21-2006	Vote at General Shareholders' Meeting
Mr. Vitalino Manuel Nafría Aznar	-	Vice Chairman	12-21-2005	06-21-2006	Vote at General Shareholders' Meeting
Mr. Julio Linares López	-	Chief Operating Officer	12-21-2005	06-21-2006	Vote at General Shareholders' Meeting
Mr. Alfonso Ferrari Herrero	-	Director	03-28-2001	06-21-2006	Vote at General Shareholders' Meeting
Mr. Antonio Massanell Lavilla	-	Director	04-21-1995	06-21-2006	Vote at General Shareholders' Meeting
Mr. Carlos Colomer Casellas	-	Director	03-28-2001	06-21-2006	Vote at General Shareholders' Meeting
Mr. David Arculus	-	Director	01-25-2006	06-21-2006	Vote at General Shareholders' Meeting
Mr. Francisco Javier de Paz Mancho	-	Director	12-19-2007	04-22-2008	Vote at General Shareholders' Meeting
Mr. Gonzalo Hinojosa Fernández de Angulo	-	Director	04-12-2002	05-10-2007	Vote at General Shareholders' Meeting
Mr. José Fernando de Almansa Moreno-Barreda	-	Director	02-26-2003	04-22-2008	Vote at General Shareholders' Meeting
Mr. José María Abril Pérez	-	Director	07-25-2007	04-22-2008	Vote at General Shareholders' Meeting
Mr. José María Álvarez-Pallete López	-	Director	07-26-2006	05-10-2007	Vote at General Shareholders' Meeting
Mr. Luiz Fernando Furlán	-	Director	01-23-2008	04-22-2008	Vote at General Shareholders' Meeting
Ms. María Eva Castillo Sanz	-	Director	01-23-2008	04-22-2008	Vote at General Shareholders' Meeting
Mr. Pablo Isla Álvarez de Tejera	-	Director	04-12-2002	05-10-2007	Vote at General Shareholders' Meeting
Mr. Peter Erskine	-	Director	01-25-2006	06-21-2006	Vote at General Shareholders' Meeting

Total number of directors

17

Indicate any Board members who left during this period.

B.1.3 Complete the following chart on Board members and their respective categories:

Executive directors

Name or corporate name of director	Committee proposing appointment	Post held in the company
Mr. César Alierta Izuel	Nominating, Compensation and Corporate Governance Committee	Executive Chairman
Mr. Julio Linares López	Nominating, Compensation and Corporate Governance Committee	Chief Operating Officer (C.O.O.)
Mr. José María Álvarez-Pallete López	Nominating, Compensation and Corporate Governance Committee	Chairman Telefónica Latin America

Total number of executive directors	% of the board
3	17.647

External proprietary directors

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
Mr. Isidro Fainé Casas	Nominating, Compensation and Corporate Governance Committee	Caja de Ahorros y Pensiones de Barcelona, "la Caixa"
Mr. Vitalino Manuel Nafría Aznar	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.
Mr. Antonio Massanell Lavilla	Nominating, Compensation and Corporate Governance Committee	Caja de Ahorros y Pensiones de Barcelona, "la Caixa"
Mr. José María Abril Pérez	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.

Total number of proprietary directors	% of the board
4	23.529

Independent external directors

Name or corporate name of director	Profile
Mr. Alfonso Ferrari Herrero	Industrial Engineer. Formerly Executive Chairman of Beta Capital, S.A. and senior manager at Banco Urquijo.
Mr. Carlos Colomer Casellas	Graduate in Economics. Chairman of the Colomer Group.
Mr. David Arculus	Graduate in Engineering and Economics. Director of Pearson, Plc., Chairman of Numis, Plc., and Aldermore Bank, Plc.
Mr. Francisco Javier de Paz Mancho	Graduate in Information and Advertising. Law Studies. IESE Business Management Program. Formerly Chairman of the State-owned company MERCASA.
Mr. Gonzalo Hinojosa Fernández de Angulo	Industrial Engineer. Formerly Chairman and CEO of Cortefiel Group.
Mr. Luiz Fernando Furlán	Degrees in chemical engineering and business administration, specializing in financial administration. From 2003 to 2007 he was Minister of Development, Industry and Foreign Trade of Brazil.
Ms. María Eva Castillo Sanz	Degrees in Business, Economics and Law. Previously Head of Merrill Lynch's Private Banking operations in Europe, the Middle East, & Africa (EMEA).
Mr. Pablo Isla Álvarez de Tejera	Law Graduate. Member of the Body of State Lawyers (on sabbatical). First Vice Chairman and CEO of Inditex, S.A.

Total number of independent directors	% of the board
8	47.059

Other external directors

Name or corporate name of director	Committee proposing appointment
Mr. José Fernando de Almansa Moreno-Barreda	Nominating, Compensation and Corporate Governance Committee
Mr. Peter Erskine	Nominating, Compensation and Corporate Governance Committee

Total number of other external directors	% of the board
2	11.765

List the reasons why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Mr. Peter Erskine	On December 31, 2007, Mr. Peter Erskine resigned as General Manager of Telefónica O2 Europe, and therefore went from being an Executive Director to being classified in the "Other external Directors" category.	Telefónica, S.A.
Mr. José Fernando de Almansa Moreno-Barreda	<p>Mr. de Almansa was appointed a Member of the Board of Directors of Telefónica, S.A. with the qualification of independent Director, on February 26, 2003, following a favorable report from the Nominating, Compensation and Corporate Governance Committee.</p> <p>In accordance with the criteria established in the Unified Code on Good Governance with regard to the qualification of Directors and taking into account the concurrent circumstances in this specific case, the Company considers that Mr. Almansa belongs to the category of "other external Directors", for the following reasons::</p> <ul style="list-style-type: none"> - He is an Acting Director (independent and non-proprietary) of Grupo Financiero BBVA Bancomer, S.A. de C.V. (controlling company of BBVA Group related to financial services in Mexico) and of BBVA Bancomer, S.A., and has never had an executive role. - He was the CEO of the Mexican company Servicios Externos de Apoyo Empresarial, S.A. de C.V., of Group BBVA, till March 2008. 	BBVA Bancomer

List any changes in the category of each director which have occurred during the year.

B.1.4 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 5% of the share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

No

B.1.5 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board his/her reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

No

B.1.6 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):

Mr. César Alierta Izuel – Executive Chairman (Chief Executive Officer):
The Chairman of the Company, as the Chief Executive Officer, has been expressly delegated all the powers of the Board of Directors, except those that cannot be delegated by Law, by the Company Bylaws, or by the Regulations of the Board of Directors which establishes, in Article 5.4, the competencies that the Board of Directors reserves itself, and may not delegate.

Article 5.4 specifically stipulates that the Board of Directors reserves the power to approve: (i) approve the general policies and strategies of the Company; (ii) evaluate the performance of the Board of Directors, its Committees and the Chairman; (iii) appoint Senior Executives, as well as the remuneration of Directors and Senior Executives; and (iv) decide strategic investments.

Mr. Julio Linares López – Chief Operating Officer:
The Chief Operating Officer has been delegated those powers of the Board of Directors related with the management of the business and the performance of the highest executive functions over all the Company's business areas, except those which cannot be delegated by Law, by the Company Bylaws or by the Regulations of the Board of Directors.

B.1.7 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

Name or corporate name of director	Corporate name of the group company	Post
Mr. Julio Linares López	Telefónica de España, S.A.U.	Director
	Telefónica Europe, Plc.	Director
	Telefónica Móviles España, S.A.U.	Director
Mr. Alfonso Ferrari Herrero	Telefónica Chile, S.A.	Alternate Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
Mr. David Arculus	Telefónica Europe, Plc.	Director
Mr. Francisco Javier de Paz Mancho	Atento Inversiones y Teleservicios, S.A.U.	Non-executive Chairman
	Telecomunicações de Sao Paulo, S.A.	Director
	Telefónica de Argentina, S.A.	Director
Mr. José Fernando de Almansa Moreno-Barreda	Telefónica Internacional, S.A.U.	Director
	Telecomunicações de Sao Paulo, S.A.	Director
	Telefónica de Argentina, S.A.	Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
Mr. José María Álvarez-Pallete López	Telefónica Móviles México, S.A. de C.V.	Director
	Colombia Telecomunicaciones, S.A. ESP	Director
	Telecomunicações de Sao Paulo, S.A.	Director/Vice Chairman
	Telefónica Chile, S.A.	Alternate Director
	Telefónica DataCorp, S.A.U.	Director
	Telefónica de Argentina, S.A.	Alternate Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Executive Chairman
	Telefónica Larga Distancia de Puerto Rico, Inc.	Director
	Telefónica Móviles Colombia, S.A.	Alternate Director
Mr. Luiz Fernando Furlán	Telefónica Móviles México, S.A. de C.V.	Director/Vice Chairman
	Telecomunicações de Sao Paulo, S.A.	Director
Ms. María Eva Castillo Sanz	Telefónica Internacional, S.A.U.	Director
	Telefónica O2 Czech Republic, a.s.	First Vice Chairman of Supervisory Board
Mr. Peter Erskine	Telefónica Europe, Plc.	Director

B.1.8 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

Name or corporate name of director	Name of listed company	Post
Mr. César Alierta Izuel	International Consolidated Airlines Group, S.A. ("IAG")	Director
Mr. Isidro Fainé Casas	Critería CaixaCorp, S.A.	Chairman
	Abertis Infraestructuras, S.A.	Vice Chairman
	Repsol YPF, S.A.	2nd vice chairman
Mr. Vitalino Manuel Nafría Aznar	Metrovacesa, S.A.	Chairman
Mr. Carlos Colomer Casellas	Ahorro Bursátil, S.A. SICAV	Chairman
	Inversiones Mobiliarias Urquiola S.A. SICAV	Chairman
Mr. Pablo Isla Álvarez de Tejera	Inditex, S.A.	Vice Chairman-CEO

B.1.9 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:

Yes

Explanation of rules

The Nominating, Compensation and Corporate Governance Committee establishes as one of the obligations of the Directors (Article 29.2 of the Regulations of the Board of Directors) that Directors must devote the time and efforts required to perform their duties and, to such end, shall report to the Nominating, Compensation and Corporate Governance Committee on their other professional obligations if they might interfere with the performance of their duties as Directors.

In addition (Article 32.g of the Regulations of the Board of Directors), the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, may forbid Directors from holding significant positions within entities that are competitors of the Company or of any of the companies in its Group.

B.1.10 In relation with Recommendation 8 of the Unified Code, indicate the company's general policies and strategies that are reserved for approval by the Board of Directors in plenary session:

Yes

Investment and financing policy	x
Design of the structure of the corporate group	x
Corporate governance policy	x
Corporate social responsibility policy	x
The strategic or business plans, management targets and annual budgets	x
Remuneration and evaluation of senior officers	x
Risk control and management, and the periodic monitoring of internal information and control systems	x
Dividend policy, as well as the policies and limits applying to treasury stock	x

B.1.11 Complete the following charts on the aggregate remuneration paid to directors during the year:

a) In the reporting company:

Concept

Thousand of euros	
Fixed remuneration	9,150
Variable remuneration	7,027
Attendance fees	321
Bylaw stipulated remuneration	0
Shares options and/or other financial instruments	3,085
Other	2,129
Total	21,712

Other benefits

Thousand of euros	
Advances	0
Loans	0
Pension funds and plans: Contributions	18
Pension funds and plans: obligations	0
Life insurance premiums	97
Guarantees issued by the company in favor of directors	0

b) For company directors sitting on other governing bodies and/or holding senior management posts within group companies:

Concept

Thousand of euros	
Fixed remuneration	3,444
Variable remuneration	1,160
Attendance fees	0
Bylaw stipulated remuneration	0
Shares options and/or other financial instruments	945
Other	358
Total	5,907

Other benefits

Thousand of euros	
Advances	0
Loans	0
Pension funds and plans: Contributions	8
Pension funds and plans: obligations	0
Life insurance premiums	14
Guarantees issued by the company in favor of directors	0

c) Total remuneration by type of directorship:

Type of director	By company	By group
Executive	17,099	3,854
External proprietary	1,221	0
External independent	2,804	1,521
Other external	588	532
Total	21,712	5,907

d) Remuneration as percentage of profit attributable to the parent company:

Total remuneration received by directors (in thousand €)	27,619
Total remuneration received by directors/profit attributable to parent company (%)	0.3

B.1.12 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Name or corporate name	Post
Mr. Matthew Key	Chairman Telefónica Europe
Mr. Santiago Fernández Valbuena	General Manager of Strategy, Finance and Corporate Development
Mr. Luis Abril Pérez	Technical General Secretary of the Chairman
Mr. Ramiro Sánchez de Lerín García-Ovies	General Legal Secretary and of the Board of Directors
Mr. Calixto Ríos Pérez	Internal Auditing Manager
Mr. Guillermo Ansaldo Lutz	Chairman Telefónica Spain

Total remuneration received by senior management (in thousand €)	14,641
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B.1.13 Identify, in aggregate terms, any indemnity or "golden parachute" clauses that exist for members of the senior management (including executive directors) of the company or of its group in the event of dismissal or changes in control. Indicate whether these agreements must be reported to and/or authorized by the governing bodies of the company or its group:

Number of beneficiaries	9
-------------------------	---

	Board of Directors	General Shareholders' Meeting
Body authorizing clauses	Yes	No

	Yes
Is the General Shareholders' Meeting informed of such clauses?	x

B.1.14 Describe the procedures for establishing remuneration for Board members and the relevant provisions in the Bylaws.

Process for establishing Board Members' remuneration and any relevant provisions in the Bylaws

Directors' compensation shall consist of a fixed and specific monthly remuneration for belonging to the Board of Directors, the Executive Commission and the Board Advisory or Control Committees, and fees for attending meetings of the Board of Directors and the advisory or control Committees thereof. The compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders' Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify it. To this effect, the General Shareholders' Meeting held on April 11, 2003 fixed the maximum gross annual sum for remuneration of the Board of Directors at 6 million euros.

The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors.

In accordance with Article 35 of the Regulations of the Board of Directors, Directors shall be entitled to receive the compensation set by the Board of Directors in accordance with the Bylaws, within the limits approved by the General Shareholders Meeting, and following a report of the Nominating, Compensation and Corporate Governance Committee.

In accordance with article 5 of the same regulations, the Board of Directors expressly reserves the powers to approve both the compensation policy for Directors and decisions on the compensation of Directors.

The Nominating, Compensation and Corporate Governance Committee has the following powers and duties (article 22 of the Regulations of the Board of Directors):

- To propose to the Board of Directors the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them.
- To propose to the Board of Directors the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of contractual implementation thereof.
- To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

Additionally, apart from such compensation as is provided for under the previous section, other remuneration systems may be established that may either be indexed to the market value of the shares, or consist of shares or of shares options for Directors. The application of such compensation systems must be authorized by the General Shareholders' Meeting, which shall fix the share value that is to be taken as the term of reference thereof, the number of shares to be given to each Director, the exercise price of the share options, the term of such compensation system and such other terms and conditions as deemed appropriate.

The remuneration systems set out in the preceding paragraphs, arising from membership of the Board of Directors, shall be deemed compatible with any and all other professional or work-based compensations to which the Directors may be entitled in consideration for whatever executive or advisory services they may provide for the Company other than such supervisory and decision-making duties as may pertain to their posts as Directors, which shall be subject to the applicable legal provisions.

Indicate whether the board has reserved for plenary approval the following decisions:

	Yes
At the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.	x
Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive duties and other contract conditions.	x

B.1.15 Indicate whether the Board of Directors approves a detailed remuneration policy and specify the points included:

Yes

	Yes
The amount of the fixed components, itemized where necessary, of Board and Board Committee attendance fees, with an estimate of the fixed annual payment they give rise to.	x
Variable components	x
The main characteristics of pension systems, including an estimate of their amount or annual equivalent cost.	x
The conditions that the contracts of executive directors exercising executive functions shall respect	x

B.1.16 Indicate whether the Board submits a report on the Directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. Explain the points of the report regarding the remuneration policy as approved by the Board for forthcoming years, the most significant changes in those policies with respect to that applied during the year in question and a global summary of how the remuneration policy was applied during the year. Describe the role played by the Remuneration Committee and whether external consultancy services have been procured, including the identity of the external consultants:

No

Role of the Remunerations Committee

- To propose to the Board of Directors, within the framework established in the Bylaws, the compensation for the Directors.
- To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

The annual report regarding the Director compensation policy of Telefónica, S.A. deals with the following:

- Objectives of the compensation policy.
- Detailed structure of compensation.
- Scope of application and reference parameters for variable remuneration.
- Relative importance of variable remuneration with regard to fixed remuneration.
- Basic terms of the contracts of Executive Directors.
- Trend of compensation.
- Process for the preparation of the compensation policy.

Yes

Have external consultancy firms been used?	x
Identity of external consultants	TOWERS WATSON

B.1.17 List any Board members who are likewise members of the boards of directors, or executives or employees of companies that own significant holdings in the listed company and/or group companies:

Name or corporate name of director	Name or corporate name of significant shareholder	Post
Mr. Isidro Fainé Casas	Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Chairman of Caja de Ahorros y Pensiones de Barcelona, "la Caixa" Chairman of Criteria CaixaCorp, S.A.
Mr. Vitalino Manuel Nafria Aznar	Banco Bilbao Vizcaya Argentaria, S.A.	Alternate Director of BBVA Bancomer, S.A. Alternate Director of BBVA Finance Group Bancomer, S.A. de C.V.
Mr. Antonio Massanell Lavilla	Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Director of Serveis Informàtics de la Caixa, S.A. (SILK) Executive Deputy General Manager of Caja de Ahorros y Pensiones de Barcelona, "la Caixa" Director of Boursorama, S.A. Chairman of Port Aventura Entertainment, S.A. Director of Caixa Capital Risc, S.G.E.C.R., S.A. Director of e-la Caixa 1, S.A. Director of Mediterranea Beach & Golf Community, S.L.
Mr. José Fernando de Almansa Moreno-Barreda	Banco Bilbao Vizcaya Argentaria, S.A.	Alternate Director of BBVA Finance Group Bancomer, S.A. de C.V. Alternate Director of BBVA Bancomer, S.A.

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

Name or company name of director with relationship	Name or company name of significant shareholder with relationship	Description of relationship
Mr. Vitalino Manuel Nafria Aznar	Banco Bilbao Vizcaya Argentaria, S.A.	Retired. Formerly Retail Banking Manager for Spain and Portugal.
Mr. José María Abril Pérez	Banco Bilbao Vizcaya Argentaria, S.A.	Early retirement. Formerly Wholesale and Investment Banking Manager.

B.1.18 Indicate whether any changes have been made to the regulations of the Board of Directors during the year:

No

B.1.19 Indicate the procedures for appointing, re-electing, evaluation and removing directors. List the competent bodies and the processes and criteria to be followed for each procedure.

Appointment

Telefónica's Bylaws state that the Board of Directors shall be composed of a minimum of five members and a maximum of twenty, to be appointed at the General Shareholders' Meeting. The Board of Directors may, in accordance with the Spanish Corporation Law and the Company Bylaws, provisionally co-opt Directors to fill any vacancies.

The Board of Directors shall have the power to fill, on an interim basis, any vacancies that may occur therein, by appointing, in such manner as is legally allowed, the persons who are to fill such vacancies until the holding of the next General Shareholders' Meeting.

Also, in all cases, proposed appointments of Directors must follow the procedures set out in the Company's Bylaws and Regulations of the Board of Directors and be preceded by the appropriate favorable report by the Nominating, Compensation and Corporate Governance Committee and in the case of independent Directors, by the corresponding proposal by the Committee.

Therefore, in exercise of the powers delegated to it, the Nominating, Compensation and Corporate Governance Committee must report, based on criteria of objectivity and the best interests of the Company, on proposals to appoint, re-appoint or remove Company Directors, taking into account the skills, knowledge and experience required of candidates to fill the vacancies.

In line with the provisions of its Regulations, the Board of Directors, exercising the right to fill vacancies by interim appointment and to propose appointments to the shareholders at the General Shareholders' Meeting, shall ensure that, in the composition of the Board of Directors, external or non-executive Directors represent an ample majority over executive Directors. Similarly, the Board shall ensure that the total number of independent Directors represents at least one third of the total number of Board members.

The nature of each Director shall be explained by the Board of Directors to the shareholders at the General Shareholders' Meeting at which the appointment thereof must be made or ratified. Furthermore, such nature shall be reviewed annually by the Board after verification by the Nominating, Compensation and Corporate Governance Committee, and reported in the Annual Corporate Governance Report.

In any case, and in the event of re-election or ratification of Directors by the General Shareholders' Meeting, the report of the Nominating, Compensation and Corporate Governance Committee, or, in the case of independent Directors, the proposal of said Committee, will contain an assessment of the work and effective time devoted to the post during the last period in which it was held by the proposed Director.

Lastly, both the Board of Directors and the Nominating, Compensation and Corporate Governance Committee will ensure, within the scope of their competencies, that the election of whoever has been proposed for the post of Director corresponds to people of recognized solvency, competence and experience, who are willing to devote the time and effort necessary to carrying out their functions, it being essential to be rigorous in the election of those people called to cover the posts of independent Directors.

Re-election

Directors are appointed for a period of five years, and may be renewable for one or more subsequent five-year periods.

As with appointments, proposals for the reappointment of Directors must be preceded by the corresponding report by the Nominating, Compensation and Corporate Governance Committee, and in the case of independent Directors, by the corresponding proposal by the Committee.

Evaluation

In accordance with the Regulations of the Board of Directors, the latter reserves expressly the duty to approve on a regular basis its functioning and the functioning of its Committees, it being the duty of the Nominating, Compensation and Corporate Governance Committee to organize and

coordinate, together with the Chairman of the Board of Directors, the regular assessment of said Body.

In accordance with the above, it should be noted that the Board of Directors and its Committees carry out a periodic evaluation of the operation of the Board of Directors and of the Committees thereof in order to determine the opinion of Directors regarding the workings of these bodies and to establish any proposals for improvements to ensure the optimum working of the company's governing bodies.

Removal

Directors' shall cease to hold office when the term for which they were appointed expires, or when so resolved by the shareholders at the General Shareholders' Meeting in the exercise of the powers legally granted to them.

The Board of Directors shall not propose the removal of any independent Director prior to the end of the Bylaw-mandated period for which they have been appointed, unless there are due grounds therefore acknowledged by the Board after a report from the Nominating, Compensation and Corporate Governance Committee. Specifically, due grounds shall be deemed to exist when the Director has failed to perform the duties inherent to his position.

The removal of independent Directors may also be proposed as a result of Takeover Bids, mergers or other similar corporate transactions that represent a change in the structure of the Company's capital.

B.1.20 Indicate the cases in which directors must resign.

In accordance with Article 12 of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and formalize such resignation in the following cases:

- a) When they cease to hold the executive post by virtue of which their appointment as Director is linked or when the reasons for which they were appointed no longer apply.
- b) When they are affected by any of the cases of incompatibility or prohibition established by law.
- c) When they are severely reprimanded by the Nominating, Compensation and Corporate Governance Committee for failure to fulfill any of their duties as Directors.
- d) When their continued presence on the Board could affect the credibility or reputation of the Company in the markets or otherwise threaten the Company's interests.

The conditions listed above under Recommendation "Removal" must also be taken into consideration.

B.1.21 Indicate whether the duties of chief executive officer fall upon the Chairman of the Board of Directors. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:

Yes

Measures for reducing risk

- Pursuant to the provisions of the Regulations of the Board of Directors, the actions of the Chairman must always be in accordance with the decisions and criteria established by the shareholders at the General Shareholders' Meeting and by the Board of Directors and its Committees.
- Likewise, all agreements or decisions of particular significance for the Company must be previously submitted for the approval of the Board of Directors or the relevant Board Committee, as the case may be.
- The Board of Directors reserves the power to approve: the general policies and strategies of the Company; the evaluation of the Board, its Committees and its Chairman; the appointment of senior executive officers, as well as the compensation policy for Directors and senior executive officers; and strategic investments.
- In addition, reports and proposals from the different Board Committees are required for the adoption of certain resolutions.
- It is important to note that the Chairman does not hold the casting vote within the Board of Directors.
- The Board of Directors of the Company, at its meeting held on December 19, 2007, agreed to appoint Mr. Julio Linares López as the Chief Executive (Chief Operating Officer) of Telefónica, S.A., reporting directly to the Chairman and with responsibility over all of Telefónica Group's Business Units.

Indicate, and if necessary, explain whether rules have been established that enable any of the independent directors to convene Board Meetings or include new items on the agenda, to coordinate and voice the concerns of external directors and oversee the evaluation by the Board of Directors.

No

B.1.22 Are qualified majorities, other than legal majorities, required for any type of decisions?

No

Describe how resolutions are adopted by the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

Description of resolution:	Quorum	Type of majority
All resolutions	Personal or proxy attendance of one half plus one of all Directors. (50.01%)	Resolutions shall be adopted by a majority of votes cast by the Directors present at the meeting in person or by proxy, except in those instances in which the Law requires the favorable vote of a greater number of Directors for the validity of specific resolutions and in particular for: (i) the appointment of Directors not holding a minimum of shares representing a nominal value of 3,000 euros, (Article 25 of the Company Bylaws) and (ii) for the appointment of Chairman, Vice Chairman, CEO or member of the Executive Committee, in accordance with the requirements explained in the following section.

B.1.23 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.

Yes

Description of requirements

In order for a Director to be appointed Chairman, said Director must have served on the Board for at least three years prior to any such appointment. However, such length of service shall not be required if the appointment is made with the favorable vote of at least 85 percent of the members of the Board of Directors.

B.1.24 Indicate whether the Chairman has the casting vote:

No

B.1.25 Indicate whether the Bylaws or the regulations of the Board of Directors establish an age limit for directors:

No

Age limit for Chairman	Age limit for CEO	Age limit for directors
0	0	0

B.1.26 Indicate whether the bylaws or the regulations of the Board of Directors set a limited term of office for independent directors:

No

Maximum number of years in office	0
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B.1.27 If there are few or no female directors, explain the reasons and describe the initiatives adopted to remedy this situation.

Explanation of reasons and initiatives

In fact, the search for women who meet the necessary professional profile is a question of principle and, in this regard, it is clear that Telefónica has taken this concern on board. In this regard, it should be noted that, on January 23, 2008, the Board of Directors unanimously agreed to appoint, by means of interim appointment and at the proposal of the Nominating, Compensation and Corporate Governance Committee, Ms. María Eva Castillo Sanz as an Independent Director of Telefónica. This appointment was ratified by the Ordinary General Shareholders' Meeting of Telefónica held on April 22, 2008, and she was thus appointed as a Member of the Board of the Company for a period of five years.

Likewise, on December 19, 2007, the Board of Directors unanimously agreed, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, to appoint Ms. María Luz Medrano Aranguren as the Deputy Secretary General and of the Board of Directors of Telefónica.

Article 10.3. of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

Therefore, the selection procedure described above is based exclusively on the personal merits of the candidates ("recognized caliber, qualifications and experience") and their ability to dedicate themselves to the functions of members of the board, so there is no implicit bias capable of impeding the selection of female directors, if, within the potential candidates, there are female candidates who meet the professional profile sought at each moment.

Indicate in particular whether the Appointments and Remunerations Committee has established procedures to ensure the selection processes are not subject to implicit bias that will make it difficult to select female directors, and make a conscious effort to search for female candidates who have the required profile:

Yes

Indicate the main procedures

In accordance with article 10.3 of the Board Regulations, the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

B.1.28 Indicate whether there are any formal processes for granting proxies at Board meetings. If so, give brief details.

In accordance with Article 18 of the Regulations of the Board of Directors, Directors must attend meetings of the Board in person, and when unable to do so in exceptional cases, they shall endeavor to ensure that the proxy they grant to another member of the Board includes, as far as is practicable, appropriate instructions. Such proxies may be granted by letter or any other means that, in the Chairman's opinion, ensures the certainty and validity of the proxy granted.

B.1.29 Indicate the number of Board meetings held during the year and how many times the board has met without the Chairman's attendance:

Number of Board meetings	14
Number of Board meetings held in the absence of its chairman	0

Indicate how many meetings of the various Board Committees were held during the year.

Number of meetings of the Executive or Delegated Committee	16
Number of meetings of the Audit and Compliance Committee	10
Number of meetings of the Appointments and Remunerations Committee	8
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration Committee	0

B.1.30 Indicate the number of Board meetings held during the financial year without the attendance of all members. Non-attendance will also include proxies granted without specific instructions:

Number of non-attendances by directors during the year	0
% of non-attendances of the total votes cast during the year	0.000

B.1.31 Indicate whether the individual and consolidated financial statements submitted for approval by the board are certified previously:

No

Indicate, if applicable, the person(s) who certified the company's individual and consolidated financial statements for preparation by the board:

B.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being submitted to the General Shareholders' Meeting with a qualified Audit Report.

Through the Audit and Control Committee, the Board of Directors plays an essential role supervising the preparation of the Company financial information, controlling and coordinating the various players that participate in this process.

In this respect, to achieve this objective the Audit and Control Committee's work addresses the following basic issues:

1. To know the process for gathering financial information and the internal control systems. With respect thereto:
 - a) To supervise the process of preparation and the integrity of the financial information related to the Company and the Group, reviewing compliance with the regulatory requirements, the proper determination of the scope of consolidation, and the correct application of the accounting standards, informing the Board of Directors thereof.
 - b) To propose to the Board of Directors the risk management and control policy.
2. To ensure the independence of the External Auditor, supervising their work and acting as a channel of communication between the Board of Directors and the External Auditor, as well as between the External Auditor and the Company management team.
3. To supervise the internal audit services, in particular:
 - a) To ensure the independence and efficiency of the internal audit function;
 - b) To propose the selection, appointment and removal of the person responsible for the internal audit;
 - c) To propose the budget for such service;
 - d) To review the annual internal audit work plan and the annual activities report;
 - e) To receive periodic information on its activities; and
 - f) To verify that the senior executive officers take into account the conclusions and recommendations of its reports.

The Audit and Control Committee verifies both the periodical financial information and the Annual Financial Statements, ensuring that all financial information is drawn up according to the same professional principles and practices. To this effect, the Audit and Control Committee meets whenever appropriate, holding ten (10) meetings in 2010.

Furthermore, the External Auditor participates regularly in the Audit and Control Committee meetings, when called to do so by the Committee, to explain and clarify different aspects of the audit reports and other aspects of its work. Additionally, and on request from the Committee, other members of the management and the Company and its subsidiaries have also been called to Committee meetings to explain specific matters that are directly within their scope of competence. In particular, managers from the finance, planning and control areas, as well as those in charge of internal audit, have attended these meetings. The members of the Committee have held separate meetings with each of these when it was deemed necessary to closely monitor the preparation of the Company's financial information.

The above notwithstanding, Article 41 of the Regulations of the Board of Directors establishes that the Board of Directors shall endeavor to prepare the final financial statements in a manner that that will create no reason for qualifications from the Auditor. However, whenever the Board considers that it should maintain its standards, it shall publicly explain the contents and scope of the discrepancies.

B.1.33 Is the secretary of the Board also a director?

No

B.1.34 Explain the procedures for appointing and removing the Secretary of the Board, indicating whether his/her appointment and removal have been notified by the Appointments Committee and approved by the board in plenary session.

Appointment and removal procedure

In accordance with article 15 of the Regulations of the Board of Directors, the Board of Directors, upon the proposal of the Chairman, and after a report from the Nominating, Compensation and Corporate Governance Committee, shall appoint a Secretary of the Board, and shall follow the same procedure for approving the removal thereof.

	Yes
Does the Appointments Committee notify appointments?	x
Does the Appointments Committee advise on dismissals?	x
Do appointments have to be approved by the board in plenary session?	x
Do dismissals have to be approved by the board in plenary session?	x

Is the Secretary of the Board entrusted in particular with the function of overseeing corporate governance recommendations?

Yes

Remarks

The Secretary of the Board shall, at all times, attend to the formal and substantive legality of the Board's actions, ensuring that said actions conform to the Bylaws and the Regulations for the General Shareholders' Meeting and of the Board, and are in line with corporate governance recommendations assumed by the Company and in effect at any given moment (article 15 of the Regulations of the Board).

B.1.35 Indicate the mechanisms, if any, established by the company to preserve the independence of the auditors, of financial analysts, of investment banks and of rating agencies.

With regards to the independence of the external Auditor of the Company, Article 41 of the Regulations of the Board of Directors establishes that the Board shall, through the Audit and Control Committee, establish a stable and professional relationship with the Company's Auditor, strictly respecting the independence thereof. One of the fundamental duties of the Audit and Control Committee is to "maintain relations with the Auditor in order to receive information on all matters that could jeopardize the independence thereof."

In addition, in accordance with Article 21 of the Regulations of the Board of Directors, it is the Audit and Control Committee that proposes to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment of the Auditor as well as, if necessary, the appropriate terms for the hiring thereof, the scope of its professional engagement and revocation or non-renewal of its appointment.

Likewise, the External Auditor has direct access to the Audit and Control Committee and participates regularly in its meetings, in the absence of the Company management team when this is deemed necessary. To this effect, and in keeping with United States legislation on this matter, the external Auditors must inform the Audit and Control Committee at least once a year on the most significant generally accepted auditing policies and practices followed in the preparation of the Company's financial and accounting information affecting key elements in the financial statements which may have been discussed with the management team, and of all relevant communications between the Auditors and the Company management team.

In accordance with internal Company regulations and in line with the requirements imposed by US legislation, the engagement of any service from the Company's external Auditors must always have the prior approval of the Audit and Control Committee. Moreover, the engagement of non-audit services must be done in strict compliance with the Accounts Audit Law and the Sarbanes-Oxley Act published in the United States and subsequent regulations. For this purpose, and prior to the engagement of the Auditors, the Audit and Control Committee studies the content of the work to be done, evaluating the situations that may jeopardize independence of the Company's external Auditor and specifically supervises the percentage the fees paid for such services represent in the total revenue of the auditing firm. In this respect, the Company reports the fees paid to the external auditor, including those paid for non-audit services, in its Notes to the Financial Statements, in accordance with prevailing legislation.

B.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the new audit firm and the previous firm:

No

Outgoing auditor	Incoming auditor
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Explain any disagreements with the outgoing auditor and the reasons for the same.

No

B.1.37 Indicate whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its group:

Yes

	Company	Group	Total
Amount of other non-audit work (in thousand €)	1	34	35
Amount from non-audit work as a % of total amount bill by audit firm	0.013	0.142	0.110

B.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

No

B.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate how many years the current firm has been auditing the accounts as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	6	6

	Company	Group
Number of years audited by current audit firm/Number of years the company accounts have been audited (%)	21.4	30.0

B.1.40 List any equity holdings of the members of the company's Board of Directors in other companies with the same, similar or complementary types of activity to that which constitutes the corporate purpose of the company and/or its group, and which have been reported to the company. Likewise, list the posts or duties they hold in such companies:

Name or corporate name of director	Corporate name of the company in question	% ownership	Post or duties
Mr. Isidro Fainé Casas	Abertis Infraestructuras, S.A.	0.008	Vice Chairman
Mr. David Arculus	BT Group Plc.	0.000	---
	British Sky Broadcasting Group Plc.	0.000	---

B.1.41 Indicate and give details of any procedures through which directors may receive external advice:

Yes

Details of procedure

Article 28 of the Regulations of the Board of Directors stipulates that in order to receive assistance in the performance of their duties, the Directors or any of the Committees of the Board may request that legal, accounting, financial or other experts be retained at the Company's expense. The engagement must necessarily be related to specific problems of a certain significance and complexity that arise in the performance of their office.

The decision to retain such services must be communicated to the Chairman of the Company and shall be implemented through the Secretary of the Board, unless the Board of Directors does not consider such engagement to be necessary or appropriate.

B.1.42 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes

Details of procedure

The Company adopts the measures necessary to ensure that the Directors receive the necessary information, specially drawn up and geared to preparing the meetings of the Board and its Committees, sufficiently in advance. Under no circumstances shall such requirement not be fulfilled on the grounds of the importance or the confidential nature of the information, except in absolutely exceptional cases.

In this regard, at the beginning of each year the Board of Directors and its Committees shall set the calendar of ordinary meetings to be held during the year. The calendar may be amended by resolution of the Board itself, or by decision of the Chairman, in which case the Directors shall be made aware of the amendment as soon as practicable.

Also, and in accordance with Recommendation 19 of the Unified Good Governance Code, at the beginning of the year the Board and its Committees shall prepare an Action Plan detailing the actions to be carried out and their timing for each year, as per their assigned powers and duties.

Likewise, all the meetings of the Board and the Board Committees have a pre-established Agenda, which is communicated at least three days prior to the date scheduled for the meeting together with the call for the session. For the same purpose, the Directors are sent the documentation related to the Agenda of the meetings sufficiently in advance. Such information is subsequently supplemented with the written documentation and presentations handed out to the Directors at the meeting.

To provide all the information and clarifications necessary in relation to certain points deliberated, the Group's senior executive officers attend nearly all the Board and Committee meetings to explain the matters within their competencies.

Furthermore, and as a general rule, the Regulations of the Board of Directors expressly establish that Directors are granted the broadest powers to obtain information about all aspects of the Company, to examine its books, records, documents and other data regarding corporate transactions. The exercise of the right to receive information shall be channeled through the Chairman or Secretary of the Board of Directors, who shall respond to the requests made by the Directors, providing them with the requested information directly or offering them the proper contacts at the appropriate level of the organization.

B.1.43 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organization's name or reputation, tendering their resignation as the case may be:

Yes

Details of rules

In accordance with Article 12 of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and formalize such resignation when their remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardizes its interests.

Likewise, article 32. h) of the Regulations establishes that Directors must report to the Board any circumstances related to them that might damage the credit or reputation of the Company as soon as possible.

B.1.44 Indicate whether any director has notified the company that he/she has been indicted or tried for any of the offences stated in article 124 of the Spanish Companies Act (LSA for its initials in Spanish):

Yes

Name of Director	Criminal proceedings	Remarks
Mr. César Alierta Izuel	Summary Proceedings 7721/2002 Magistrate's Court number 32 of Madrid	The Director has been absolved by final Ruling dated December 21, 2010, adopted unanimously by the Second Chamber of the Supreme Court, absolute statement that was also made, at the time, by the Section 17 of the Madrid Regional Court, by Ruling dated July 17, 2009. The Ruling being final, no appeal is permitted, and therefore, the prosecution has been definitely shelved.

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office.

Yes

Decision	Explanation
May continue	There have been no circumstances that merit the adoption of any action or decision in this regard.

B.2 Committees of the Board of Directors

B.2.1 Give details of all the committees of the Board of Directors and their members:

Nominating, Compensation and Corporate Governance Committee

Name	Position	Type
Mr. Alfonso Ferrari Herrero	Chairman	Independent
Mr. Carlos Colomer Casellas	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. Pablo Isla Álvarez de Tejera	Member	Independent
Mr. Peter Erskine	Member	Other external

Audit and Control Committee

Name	Position	Type
Mr. Gonzalo Hinojosa Fernández de Angulo	Chairman	Independent
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Antonio Massanell Lavilla	Member	Proprietary
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

Human Resources, and Corporate Reputation and Responsibility Committee

Name	Position	Type
Mr. Francisco Javier de Paz Mancho	Chairman	Independent
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Antonio Massanell Lavilla	Member	Proprietary
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. Pablo Isla Álvarez de Tejera	Member	Independent
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

Regulation Committee

Name	Position	Type
Mr. Pablo Isla Álvarez de Tejera	Chairman	Independent
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. David Arculus	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Independent
Mr. José Fernando de Almansa Moreno-Barreda	Member	Other external
Ms. María Eva Castillo Sanz	Member	Independent
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

Service Quality and Customer Service Committee

Name	Position	Type
Mr. Antonio Massanell Lavilla	Chairman	Proprietary
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Carlos Colomer Casellas	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Ms. María Eva Castillo Sanz	Member	Independent
Mr. Pablo Isla Álvarez de Tejera	Member	Independent

International Affairs Committee

Name	Position	Type
Mr. José Fernando de Almansa Moreno-Barreda	Chairman	Other external
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. David Arculus	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. José María Abril Pérez	Member	Proprietary
Mr. Luiz Fernando Furlán	Member	Independent
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

Executive Commission

Name	Position	Type
Mr. César Alierta Izuel	Chairman	Executive
Mr. Isidro Fainé Casas	Vice Chairman	Proprietary
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Carlos Colomer Casellas	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. José María Abril Pérez	Member	Proprietary
Mr. Julio Linares López	Member	Executive
Mr. Peter Erskine	Member	Other external

Strategy Committee

Name	Position	Type
Mr. Peter Erskine	Chairman	Other external
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. José Fernando de Almansa Moreno-Barreda	Member	Other external
Ms. María Eva Castillo Sanz	Member	Independent

Innovation Committee

Name	Position	Type
Mr. Carlos Colomer Casellas	Chairman	Independent
Mr. Antonio Massanell Lavilla	Member	Proprietary
Mr. Julio Linares López	Member	Executive
Mr. Pablo Isla Álvarez de Tejera	Member	Independent
Mr. Peter Erskine	Member	Other external

B.2.2 Indicate whether the Audit Committee is responsible for the following:

	Yes
To supervise the preparation process and monitor the integrity of financial information on the Company and, if applicable, the Group, revising compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and correct application of accounting principles.	x
To regularly review internal control and risk management systems, so main risks are correctly identified, managed and notified.	x
To safeguard the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.	x
To establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	x
To submit to the board proposals for the selection, appointment, reappointment and removal of the external auditor, and the engagement conditions.	x
To receive regular information from the external auditor on the progress and findings of the audit program and check that senior management are acting on its recommendations.	x
To ensure the independence of the external auditor.	x
In the case of groups, to urge that the group auditor take on the auditing of all component companies.	x

B.2.3 Describe the organizational and operational rules and the responsibilities attributed to each of the board committees.

International Affairs Committee.

a) Composition.

The International Affairs Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the International Affairs Committee shall be appointed from among its members.

b) Duties.

Notwithstanding any other duties that the Board of Directors may assign thereto, the primary mission of the International Affairs Committee shall be to strengthen and bring relevant international issues to the attention of the Board of Directors for the proper development of the Telefónica Group. In that regard, it shall have the following duties, among others:

- (i) To pay special attention to institutional relations in the countries in which the companies of the Telefónica Group operate.
- (ii) To review those matters of importance that affect it in international bodies and forums, or those of economic integration.
- (iii) To review regulatory and competition issues and alliances.
- (iv) To evaluate the programs and activities of the Company's various Foundations and the resources used to promote its image and international social presence.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the International Affairs Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the International Affairs Committee.

Audit and Control Committee.

Pursuant to the provisions set out in Article 31 bis of the Company Bylaws of Telefónica, S.A., Article 21 of the Regulations of the Board of Directors regulates the Audit and Control Committee in the following terms:

a) Composition.

The Audit and Control Committee shall be comprised of a minimum of three and a maximum of five Directors appointed by the Board of Directors. All of the members of such Committee shall be external Directors. When appointing such members, the Board of Directors shall take into account the appointees' knowledge and experience in matters of accounting, auditing and risk management.

The Chairman of the Audit and Control Committee, who shall in all events be an independent Director, shall be appointed from among its members, and shall be replaced every four years; he/she may be re-elected after the passage of one year from the date when he/she ceased to hold office.

b) Duties.

Without prejudice to any other tasks that the Board of Directors may assign thereto, the primary duty of the Audit and Control Committee shall be to support the Board of Directors in its supervisory duties. Specifically, it shall have at least the following powers and duties:

- 1) To report, through its Chairman, to the General Shareholders' Meeting on matters raised thereat by the shareholders that are within the purview of the Committee.
- 2) To propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment of the external Auditor, as well as, where appropriate, the terms of the hiring thereof, the scope of its professional engagement and the revocation or non-renewal of such appointment.
- 3) To supervise the internal audit services and, in particular:
 - a) To ensure the independence and efficiency of the internal audit function;
 - b) To propose the selection, appointment and removal of the person responsible for the internal audit;
 - c) To propose the budget for such service;
 - d) To review the annual internal audit work plan and the annual activities report;

e) To receive periodic information on its activities; and

f) To verify that the senior executive officers take into account the conclusions and recommendations of its reports.

4) To know the process for gathering financial information and the internal control systems. With respect thereto:

a) To supervise the process of preparation and the integrity of the financial information related to the Company and the Group, reviewing compliance with the regulatory requirements, the proper determination of the scope of consolidation, and the correct application of the accounting standards, informing the Board of Directors thereof.

b) To propose to the Board of Directors the risk management and control policy.

5) To establish and supervise a mechanism that allows employees to confidentially and anonymously report potentially significant irregularities, particularly any financial and accounting irregularities detected within the Company.

6) To maintain relations with the Auditor in order to receive information on all matters that could jeopardize the independence thereof, as well as any other matters relating to the audit procedure, and to receive information from and maintain the communications with the Auditor provided for in auditing legislation and in technical auditing regulations.

In addition, the Audit and Control Committee, since the enforcement of the 12/2010 of 30th June Act, complies with the new responsibilities set out in the mentioned Regulations.

c) Operation.

The Audit and Control Committee shall meet at least once every quarter and as often as appropriate, when called by its Chairman.

In the performance of its duties, the Audit and Control Committee may require that the Company's Auditor and the person responsible for internal audit, and any employee or senior executive officer of the Company, attend its meetings.

d) Action Plan and Report.

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Audit and Control Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Audit and Control Committee.

Service Quality and Customer Service Committee.

a) Composition.

The Service Quality and Customer Service Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Service Quality and Customer Service Committee shall be appointed from among its members.

b) Duties.

Without prejudice to any other duties that the Board of Directors may assign thereto, the Service Quality and Customer Service Committee shall have at least the following duties:

- (i) To periodically examine, review and monitor the quality indices of the principal services provided by the companies of the Telefónica Group.
- (ii) To evaluate levels of customer service provided by such companies.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Service Quality and Customer Service Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Service Quality and Customer Services Committee.

Strategy Committee.

a) Composition.

The Board of Directors shall determine the number of members of this Committee.

The Chairman of the Strategy Committee shall be appointed from among its members.

b) Duties.

Without prejudice to any other tasks that the Board of Directors may assign thereto, the primary duty of the Strategy Committee shall be to support the Board of Directors in the analysis and follow up of the global strategy policy of the Telefónica Group.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Strategy Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Strategy Committee.

Innovation Committee.

a) Composition.

The Board of Directors shall determine the number of members of this Committee.

The Chairman of the Innovation Committee shall be appointed from among its members.

b) Duties.

The Innovation Committee is primarily responsible for advising and assisting in all matters regarding innovation. Its main object is to perform an examination, analysis and periodic monitoring of the Company's innovation projects, to provide guidance and to help ensure its implementation and development across the Group.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Innovation Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Innovation Committee.

Nominating, Compensation and Corporate Governance Committee.**a) Composition.**

The Nominating, Compensation and Corporate Governance Committee shall consist of not less than three nor more than five Directors appointed by the Board of Directors. All members of the Committee must be external Directors and the majority thereof must be independent Directors.

The Chairman of the Nominating, Compensation and Corporate Governance Committee, who shall in all events be an independent Director, shall be appointed from among its members.

b) Duties.

Notwithstanding other duties entrusted it by the Board of Directors, the Nominating, Compensation and Corporate Governance Committee shall have the following duties:

- 1) To report, following standards of objectivity and conformity to the corporate interest, on the proposals for the appointment, re-election and removal of Directors and senior executive officers of the Company and its subsidiaries, and evaluate the qualifications, knowledge and experience required of candidates to fill vacancies.
- 2) To report on the proposals for appointment of the members of the Executive Commission and of the other Committees of the Board of Directors, as well as the Secretary and, if applicable, the Deputy Secretary.
- 3) To organize and coordinate, together with the Chairman of the Board of Directors, a periodic assessment of the Board, pursuant to the provisions of Article 13.3 of these Regulations.
- 4) To inform on the periodic assessment of the performance of the Chairman of the Board of Directors.
- 5) To examine or organize the succession of the Chairman such that it is properly understood and, if applicable, to make proposals to the Board of Directors so that such succession occurs in an orderly and well-planned manner.
- 6) To propose to the Board of Directors, within the framework established in the Bylaws, the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them, as provided in Article 35 of these Regulations.
- 7) To propose to the Board of Directors, within the framework established in the Bylaws, the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of the contractual implementation thereof.

8) To prepare and propose to the Board of Directors an annual report regarding the Directors compensation policy.

9) To supervise compliance with the Company's internal rules of conduct and the corporate governance rules thereof in effect from time to time.

10) To exercise such other powers and performs such other duties as are assigned to such Committee in these Regulations.

c) Operation.

In addition to the meetings provided for in the annual schedule, the Nominating, Compensation and Corporate Governance Committee shall meet whenever the Board of Directors of the Company or the Chairman thereof requests the issuance of a report or the approval of proposals within the scope of its powers and duties, provided that, in the opinion of the Chairman of the Committee, it is appropriate for the proper implementation of its duties.

d) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Nominating, Compensation and Corporate Governance Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Nominating, Compensation and Corporate Governance Committee.

Human Resources and Corporate Reputation and Responsibility Committee.**a) Composition.**

The Human Resources and Corporate Reputation and Responsibility Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three and the majority of its members shall be external Directors.

The Chairman of the Human Resources, Reputation and Corporate Responsibility Committee shall be appointed from among its members.

b) Duties.

Without prejudice to any other tasks that the Board of Directors may assign thereto, the Human Resources and Corporate Reputation and Responsibility Committee shall have at least the following duties:

- (i) To analyze, report on and propose to the Board of Directors the adoption of the appropriate resolutions on personnel policy matters.

- (ii) To promote the development of the Telefónica Group's Corporate Reputation and Responsibility project and the implementation of the core values of such Group.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Human Resources, Corporate Reputation and Responsibility Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Human Resources, Corporate Reputation and Responsibility Committee.

Regulation Committee.

a) Composition.

The Regulation Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Regulation Committee shall be appointed from among its members.

b) Duties.

Notwithstanding other duties entrusted to it by the Board of Directors, the Regulation Committee shall have at least the following functions:

- (i) To monitor on a permanent basis the principal regulatory matters and issues affecting the Telefónica Group at any time, through the study, review and discussion thereof.
- (ii) To act as a communication and information channel between the Management Team and the Board of Directors in regulatory matters and, where appropriate, to advise the latter of those matters deemed important or significant to the Company or to any of the companies of its Group in respect of which it is necessary or appropriate to make a decision or adopt a particular strategy.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Regulation Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Regulation Committee.

Executive Commission.

a) Composition.

The Executive Commission shall consist of the Chairman of the Board, once appointed as a member thereof, and not less than three nor more than ten Directors appointed by the Board of Directors.

In the qualitative composition of the Executive Commission, the Board of Directors shall seek to have external or non-executive Directors constitute a majority over the executive Directors.

In all cases, the affirmative vote of at least two-thirds of the members of the Board of Directors shall be required in order for the appointment or re-appointment of the members of the Executive Commission to be valid.

b) Duties.

The Board of Directors, always subject to the legal provisions in force, has delegated all its powers to an Executive Commission, except those that cannot be delegated by Law, by the Company Bylaws, or by the Regulations of the Board of Directors.

The Executive Commission provides the Board of Directors with a greater efficiency and effectiveness in the executions of its tasks, since it meets more often.

c) Operation.

The Executive Commission shall meet whenever called by the Chairman, and shall normally meet every fifteen days.

The Chairman and Secretary of the Board of Directors shall act as the Chairman and Secretary of the Executive Commission. One or more Vice Chairmen and a Deputy Secretary may also be appointed.

A quorum of the Executive Commission shall be validly established with the attendance, in person or by proxy, of one-half plus one of its members.

Resolutions shall be adopted by a majority of the Directors attending the meeting (in person or by proxy), and in the case of a tie, the Chairman shall cast the deciding vote.

d) Relationship with the Board of Directors.

The Executive Commission shall report to the Board in a timely manner on the matters dealt with and the decisions adopted at the meetings thereof, with a copy of the minutes of such meetings made available to the members of the Board (article 20.C of the Regulations of the Board of Directors).

B.2.4 Identify any advisory or consulting powers and, where applicable, the powers delegated to each of the committees:

Committee name	Brief description
International Affairs Committee	Consultative and control committee
Audit and Control Committee	Consultative and control committee
Service Quality and Customer Service Committee	Consultative and control committee
Strategy Committee	Consultative and control committee
Innovation Committee	Consultative and control committee
Nominating, Compensation and Corporate Governance Committee	Consultative and control committee
Human Resources and Corporate Reputation and Responsibility Committee	Consultative and control committee
Regulation Committee	Consultative and control committee
Executive Commission	Corporate Body with general decision-making powers and express delegation of all powers corresponding to the Board of Directors except for those that cannot be delegated by law, bylaws or regulations.

B.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

International Affairs Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Audit and Control Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. In addition, the Audit and Control Committee is specifically regulated in article 31 bis of the Bylaws. These documents are available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Service Quality and Customer Service Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Strategy Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Innovation Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Nominating, Compensation and Corporate Governance Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Human Resources and Corporate Reputation and Responsibility Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Regulation Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Executive Commission

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. The Executive Committee is also regulated by Article 31 of the Bylaws. These documents are available for consultation on the company website.

B.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of directors:

Yes

C Related party transactions

C.1 Indicate whether the board plenary sessions have reserved the right to approve, based on a favorable report from the Audit Committee or any other committee responsible for this task, transactions which the company carries out with directors, significant shareholders or representatives on the board, or related parties:

Yes

C.2 List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies and the significant shareholders in the company:

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (Thousand of euros)
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Rendering of services	193,380
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Other income	10,607
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Repayment or cancellation of loans and finance leases (lessor)	2,761
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance revenue	4,576
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Receipt of services	10,785
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Guarantees and deposits received	46
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Commitments undertaken	134,637
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Lease payments	972
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	2,011
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance leases (lessor)	6,565
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Guarantees and deposits given	501,833
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance costs	26,706
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Other expenses	2,779
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance agreements, loans and capital contributions (borrower)	358,603
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Financing agreements: capital contributions and loans (lender)	33,500
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Dividends and other benefits paid	439,413
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Guarantees and deposits given	420,150
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Dividends received	16,118
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance agreements, loans and capital contributions (borrower)	323,491
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Guarantees and deposits received	46
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Receipt of services	4,902
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance revenue	5,390
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Financing agreements: capital contributions and loans (lender)	226,586
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Commitments undertaken	11,062,000
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance costs	2,130
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Receipt of services	16,401
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	36,653
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Management or Partnership agreements	63
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Other expenses	74
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Other income	9,210
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Finance agreements, loans and capital contributions (borrower)	14,727
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Repayment or cancellation of loans and finance leases (lessor)	427
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Commitments undertaken	407
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Guarantees and deposits received	774
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Commitments undertaken	28,989
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Lease payments	3,523
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Finance leases (lessor)	1,831
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Guarantees and deposits given	46,503
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Rendering of services	32,384
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Finance revenue	14
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Finance costs	874
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Telefónica, S.A.	Contractual	Finance agreements, loans and capital contributions (borrower)	290,520
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Telefónica, S.A.	Contractual	Financing agreements: capital contributions and loans (lender)	118,381
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Telefónica, S.A.	Contractual	Dividends and other benefits paid	298,126
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Telefónica, S.A.	Contractual	Guarantees and deposits given	371
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Telefónica, S.A.	Contractual	Finance costs	2,809
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Telefónica, S.A.	Contractual	Receipt of services	4,068
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Telefónica, S.A.	Contractual	Guarantees and deposits received	774
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Telefónica, S.A.	Contractual	Commitments undertaken	800,000
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Telefónica, S.A.	Contractual	Finance revenue	8,262

C.3 List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies, and the company's managers or directors:

C.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities:

C.5 Identify, where appropriate, any conflicts of interest affecting company directors pursuant to Article 127 of the LSA.

No

C.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

The Company policy has established the following principles governing possible conflicts of interest that may affect Directors, senior executive officers or significant shareholders:

- With respect to Directors, Article 32 of the Regulations of the Board of Directors establishes that Directors shall inform the Board of Directors of any situation of direct or indirect conflict they may have with the interest of the company. In the event of conflict, the Director affected shall refrain from participating in the deliberation to which the conflict refers.

Moreover, and in accordance with the provisions set out in the Regulations of the Board, Directors shall refrain from participating in votes that affect matters in which they or persons related to them have a direct or indirect interest.

Likewise, the aforementioned Regulations establish that Directors shall not directly or indirectly enter into professional or commercial transactions with the Company or with any of the companies of the Group, if such transactions are unrelated to the ordinary course of business of the Company or not performed on an arm's length basis, unless the Board of Directors is informed thereof in advance and, with the prior report of the Nominating, Compensation and Corporate Governance Committee, it approves the transaction upon the affirmative vote of at least 90% of the Directors present in person or by proxy.

- With regards to significant shareholders, Article 39 of the Regulations of the Board of Directors stipulates that the Board of Directors shall be aware of the transactions that the Company enters into, either directly or indirectly, with Directors, with significant shareholders or shareholders represented on the Board, or with persons related thereto.

The performance of such transactions shall require the authorization of the Board, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, unless they are transactions or operations that form part of the customary or ordinary activity of the parties involved that are performed on customary market terms and in insignificant amounts for the Company.

The transactions referred to in the preceding sub-section shall be assessed from the point of view of equal treatment of shareholders and the arm's-length basis of the transaction, and shall be included in the Annual Corporate Governance Report and in the periodic information of the Company upon the terms set forth in applicable laws and regulations.

- With respect to senior executive officers, the Internal Code of Conduct for Securities Markets Issues sets out the general principles of conduct for the persons subject to the said regulations who are involved in a conflict of interest. The aforementioned Code includes all the Company Management Personnel within the concept of affected persons.

In accordance with the provisions of this Code, senior executive officers are obliged to (a) act at all times with loyalty to the Telefónica Group and its shareholders, regardless of their own or other interests; (b) refrain from interfering in or influencing the making of decisions that may affect individuals or entities with whom there is a conflict; and (c) refrain from receiving information classified as confidential which may affect such conflict. Furthermore, these persons are obliged to inform the Company Regulatory Compliance Unit of all transactions that may potentially give rise to conflicts of interest.

C.7 Is more than one group company listed in Spain?

No

Identify the listed subsidiaries in Spain:

D Risk Control Systems

D.1 Give a general description of risk policy in the company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

The Telefónica Group's business is conditioned by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The risks described below are the most significant.

Group related risks

- *Country risk (investments in Latin America).* At December 31, 2010, approximately 50,6% of the Group's assets were located in Latin America. In addition, around 42,9% of its revenues from operations for 2010 were derived from its Latin American operations. The Group's investments and operations in Latin America (including the revenues generated by the Group's operations in these countries, their market value, and the dividends and payments of management fees) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:
 - government regulation or administrative policies may change unexpectedly and negatively affect the economic conditions or business environment in which it operates, and, therefore, our interests in such countries;
 - currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;
 - the effects of inflation and/or local currency devaluation may lead certain subsidiaries to a negative equity situation, requiring them to undertake a mandatory recapitalization or commence dissolution proceedings;
 - governments may expropriate or nationalize assets or increase their participation in the economy and companies;
 - governments may impose burdensome taxes or tariffs;
 - political changes may lead to changes in the economic conditions and business environment in which we operate; and
 - economic downturns, political instability and civil disturbances may negatively affect the Telefónica Group's operations in such countries.

In addition, the Telefónica Group's operations are dependent, in many cases, on concessions and other agreements with existing governments in the countries in which it operates. These concessions and agreements, including their renewal, could be directly affected by economic and political instability, altering the terms and conditions under which it operates.

- *Management of foreign currency and interest rate risk.* The Telefónica Group's business is exposed to various types of market risk, including the impact of changes in interest rates or foreign currency exchange rates, as well as the impact of changes of counterparty credit risk in treasury operations or in some structured financed transactions entered into. The Telefónica group employs risk management strategies to manage this risk, in part through the use of financial derivatives, such as foreign currency forwards, currency swap agreements and interest rate swap agreements. If the financial derivatives market is not sufficiently liquid for the Group's risk management purposes, or if it cannot enter into

arrangements of the type and for the amounts necessary to limit the exposure to currency exchange-rate and interest-rate fluctuations, or if banking counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect the financial position, operating results and cash flow. Also, Telefónica's other risk management strategies may not be successful, which could adversely affect the financial position, operating results and cash flow. Finally, if the rating of counterparties in treasury investments or in structured financed transactions deteriorates significantly or if these counterparties fail to meet their obligations to the Company, the Telefónica Group may suffer loss of value in its investments, incur in unexpected losses and/or assume additional financial obligations under these transactions. Such failure could adversely affect the Telefónica Group's financial position, operating results and cash flow.

- *Current global economic situation.* The Telefónica Group's business is impacted by general economic conditions and other similar factors in each of the countries in which it operates. The current adverse global economic situation and uncertainty about the economic recovery may negatively affect the level of demand of existing and prospective customers, as customers may no longer deem critical the services offered by the Group. Other factors that could influence customer demand include access to credit, unemployment rates, consumer confidence and other macroeconomic factors. Specifically, in this respect the continuation of recession in Spain, according to the forecasts contained in the Spanish Economic Ministry's Stability Program for 2009-2013, could have an adverse effect on the Telefónica Group's results in Spain.

In addition, there could be other possible follow-one effects from the economic crisis on the Group's business, including insolvency of key customers or suppliers. In general terms, a loss of customers or a decline in sales could have an adverse effect on the Telefónica Group's financial position, operation results and cash flow and may therefore negatively affect the ability to meet growth targets.

- *Dependence on external sources of financing.* The performance, expansion and improvement of networks, the development and distribution of the Telefónica Group's services and products require a substantial amount of financing. Moreover, the Telefónica Group's liquidity and capital resource requirements may increase if the Company participates in other fixed line or wireless license award processes or makes acquisitions. There are also other major capital recourse requirements relating to, among other things, the development of distribution channels in new countries of operations and the development and implementation of new technologies.

If the ability to generate cash flow were to decrease, whether due to the ongoing economic and financial crisis or otherwise, the Telefónica Group may need to incur additional debt or raise other forms of capital to support liquidity and recourses requirements for the sustained development and expansion of its business.

The performance of the financial markets in terms of liquidity, cost of credit, access and volatility, continues to be overshadowed by persisting uncertainty regarding certain factors such as the speed of the economic recovery, the health of the international banking system, the increasing concerns regarding the burgeoning deficits of some governments, etc. Worsening conditions in international financial markets due to any of these factors may make it more difficult and expensive for the Telefónica Group to refinance its debt or take on additional debt if necessary.

In addition, its capacity to raise capital in the international capital markets would be impaired if Telefónica's credit ratings were downgraded, whether due to decreases in its cash flow or otherwise. Further, current market conditions make it more challenging to renew unused bilateral credit facilities.

The current financial crisis could also make it more difficult and costly for the Company's current shareholders to launch rights issues or ask key investors for equity investments, even if further funds were needed for the Company to pursue its business plans.

Risks related to our industry.

- *Highly competitive markets.* The Telefónica Group faces significant competition in all of the markets in which it operates. Therefore, it is subject to the effects of actions by competitors in these markets. These competitors could:
 - offer lower prices, more attractive discount plans or better services or features;
 - develop and deploy more rapidly new or improved technologies, services and products;
 - launch bundle offerings of one type of service with others;
 - in the case of the mobile industry, subsidize handset procurement; or
 - expand and extend their networks more rapidly.

Furthermore, some of these competitors in certain markets have, and some potential competitors may enjoy, in certain markets, competitive advantages, including the following:

- greater brand name recognition;
- greater financial, technical, marketing and other resources;
- dominant position or significant market power;
- better strategic alliances;
- larger customer bases; and
- well-established relationships with current and potential customers.

To compete effectively with these competitors, the Telefónica Group needs to successfully market its products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by its competitors, pricing strategies adopted by its competitors, changes in consumer preferences and in general economic, political and social conditions. The Telefónica Group's inability to effectively compete could result in price reductions, lower revenues, under-utilization of the Group's services, reduced operating margins and loss of market share. Any of these circumstances could negatively affect the Telefónica Group's financial position, operating results and cash flow.

- *Highly regulated markets.* As a multinational telecommunications company that operates in regulated markets, the Telefónica Group is subject to different laws and regulations in each of the jurisdictions in which it provides services and in which supranational (e.g. the European Union), national, state, regional local authorities intervene to varying degrees and as appropriate.

This regulation is particularly strict in some of the countries in which the Company holds a dominant position. In this respect, the regulatory authorities regularly intervene in both the wholesale and retail offering and pricing of the Telefónica Group's products and services.

Furthermore, the regulatory authorities could also adopt regulations or take other actions that could adversely affect the Telefónica Group, including revocation of or failure to renew any of its licenses, changes in the spectrum allocation or the grant of new licenses, authorizations or concessions to competitors to offer services in a particular market. They could also adopt, among others, measures or additional requirements to reduce roaming prices and fixed and/or mobile termination rates, force Telefónica to provide third-party access to its networks and impose economic fines for serious breaches. Such regulatory actions or measures could place significant competitive and pricing pressure on the Group's operations, and could have a material adverse effect on the Telefónica Group's financial position, operating results and cash flow.

In addition, since the Telefónica Group holds a leading market share in many of the countries where it operates, the Group could be affected by regulatory actions of antitrust or competition authorities. These authorities could prohibit certain actions, such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on the Company, which, if significant, could result in loss of market share and/or in harm to future growth of certain businesses.

Specifically, the regulatory landscape in Europe will change as a consequence of the recent approval of the European Union's new common regulatory framework, which must be transposed into national law by Member States by May 2011. The regulatory principles established for Europe suggest that the new frameworks in each Member State could result in increased regulatory pressure on the local competitive environment.

This framework supports the adoption of measures by national regulators, in specific cases and under exceptional conditions, establishing the functional separation between the wholesale and retail businesses of operators with significant market power and vertically integrated operators, whereby they would be required to offer equal wholesale terms to third-part operators that acquire these products. The new framework is also likely to strengthen consumer protection, network integrity and data privacy measures. The Company may also face new regulatory initiatives in the area of mobile termination rates and the provision of audiovisual content and services.

In some European countries, the Telefónica Group may also face increased pressure from regulatory initiatives aimed at reallocating spectrum rights of use and changing the policies regarding spectrum allocation which could lead to new procedures for awarding spectrum in Europe.

Finally, the recommendation on the application of the European regulatory policy to next-generation broadband networks being drawn up by the European Commission could play a key role in the incentives for operators to invest in net fixed broadband networks in the short and medium term, thus affecting the outlook for the business and competition in this market segment. The European Commission is currently drafting a recommendation on cost accounting and non-discrimination which could apply more regulatory pressure to fixed operators.

- *Services are provided under licenses or concessions.* Most of Telefónica's operating companies require licenses, authorizations or concessions from the governmental authorities of the various countries. These licenses, authorizations and concessions specify the types of services Telefónica is permitted to offer under each circumstance.

The terms of its licenses, authorizations and concessions are subject to review by regulatory authorities in each country and to possible interpretation, modification of termination by these authorities. Moreover, authorizations, licenses and concessions, as well as their renewal terms and conditions, may be directly affected by political and regulatory factors.

The terms of these licenses, authorization and concessions and the conditions of the renewals of such licenses, authorizations and concessions vary from country to country. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms, which is usually related to the fulfillment of the commitments that were assumed by the grantee. As licenses, authorizations and concessions approach the end of their terms, the Telefónica Group intends to pursue their renewal to the extent provided by the contractual conditions of said licenses, authorizations or concessions, though the Group can not guarantee that it will always complete this process successfully.

Many of these licenses, authorizations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over the Telefónica Group's operating companies require them to meet specified network build-out requirements and schedules. In particular, Telefónica's existing licenses, authorizations and concessions typically require it to satisfy certain obligations, including, among others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the license, authorization or concession. In addition, the need to meet scheduled deadlines may require Telefónica Group operators to expend more resources than otherwise budgeted for a particular network build-out.

- *Markets subject to constant technological development.* The Telefónica Group's future success depends, in part, on its ability to anticipate and adapt in a timely manner to technological changes. New products and technologies are constantly emerging, while existing products and services continue to develop. This need for constant technological innovation can render obsolete the products and services the Telefónica Group offers and the technology it uses, and may consequently reduce the revenue margins obtained and require investment in the development of new products, technology and services. In addition, the Company may be subject to competition in the future from other companies that are not subject to regulation as a result of the convergence of telecommunications technologies. As a result, it may be very expensive for the Telefónica Group to develop the products and technology it needs in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect the Telefónica Group's financial position, operating results and cash flow.

The Telefónica Group must continue to upgrade its existing mobile and fixed line networks in a timely and satisfactory manner in order to retain and expand the customer base in each of its markets, to enhancing its financial performance and to satisfy regulatory requirements. Among other things, the Telefónica Group could be required to upgrade the functionality of its networks to achieve greater service customization, to increased coverage of some of its markets, or expand and maintain customer service, network management and administrative systems.

Many of these tasks are not entirely under the Telefónica Group's control and could be constrained by applicable regulation. If the Telefónica Group fails to execute these tasks efficiently, its services and products may become less attractive to new customers and the Company may lose existing customers to its competitors, which would adversely affect the Telefónica Group's financial position, operating results and cash flow.

- *Limitations on spectrum capacity could curtail growth.* Telefónica's mobile operations in a number of countries may rely on the availability of spectrum. The Company's failure to obtain sufficient or appropriate capacity and spectrum coverage, as well as the related cost of obtaining this capacity, could have an adverse impact on the quality of our services and on the Company's ability to provide new services, adversely affecting its business, financial position, operating results and cash flow.
- *Supplier failures.* The Telefónica Group depends upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Further, these suppliers may be adversely affected by current economic conditions. If these suppliers fail to deliver products and services on a timely basis, this could have an adverse impact on the Telefónica Group's businesses and the results of its operations. Similarly, interruptions in the supply of telecommunications equipment for its networks could impede network development and expansion, which in some cases could adversely affect the Telefónica Group's ability to satisfy its license terms and requirements.
- *Risks associated with unforeseen network interruptions.* Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in the Telefónica Group's service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, fines or other types of measures imposed by regulatory authorities and could harm the Telefónica Group's reputation. Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and it is not possible to foresee every incident or action that could damage or interrupt the Telefónica Group's networks. Although the Telefónica Group carries business interruption insurance, its insurance policy may not provide coverage in amounts sufficient to compensate it for any losses it may incur.

- *Electromagnetic radio emissions and social awareness.* Over the last few years, the debate about the alleged potential effects of radio frequency emissions on human health has hindered the deployment of the infrastructures necessary to ensure quality of service.

Institutions and organizations, such as the World Health Organization WHO, have stated that exposure to radio frequency emissions generated by mobile telephony, within the limits established, has no adverse effects on health. In fact, a number of European countries, including Spain among others, have drawn up complete regulations reflecting the Recommendation of the Council of the European Union dated July 12, 1999 on the limitation of exposure of the general public to electromagnetic fields. These add planning criteria for new networks, thus ensuring compliance with the limits on exposure to radio frequency emissions.

New studies and research are underway. Specifically, the WHO has announced that in 2011 it will issue new recommendations on this matter in its Environmental Health Criteria. Whether or not other research or studies conclude that radiofrequency emissions could have a negative impact on health, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on the Telefónica Group's mobile companies and consequently on its financial position, operating results and cash flow.

While the Telefónica Group is not currently aware of any evidence confirming a link between radio-frequency emissions and health problems and it continues to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

- *Risk of asset impairment.* The Telefónica Group reviews on an annual basis, or more frequently where the circumstances require, the value of each of its assets and subsidiaries, to assess whether the carrying values of such assets and subsidiaries can be supported by the future cash flows expected, including, in some cases synergies included in acquisition cost. The current economic environment and its development in the short and medium term, as well as changes in the regulatory, business or political environment may result in the need to introduce impairment charges in its goodwill, intangible assets or fixed assets. Though the recognition of impairments of items of property, plant and equipment, intangible assets and financial assets results in a non-cash charge on the income statement, it could adversely affect the Telefónica Group's operating results.

Other risks.

- *Litigation and other legal proceedings.* The Telefónica Group is party to lawsuits and other legal proceedings in the ordinary course of its business, the financial outcome of which is generally uncertain. Litigation and regulatory proceedings are inherently unpredictable. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be asserted in the future) could result in significant costs and may have a material adverse effect on the Telefónica Group's business, financial position, results of operations and cash flow.

D.2 Indicate whether the company or group has been exposed to different types of risk (operational, technological, financial, legal, reputational, fiscal, etc.) during the year:

Yes

If so, indicate the circumstances and whether the established control systems worked adequately.

Risks occurring in the year

Venezuelan economy.

Circumstances responsible for this occurrence

Key among these factors are the level of inflation reached in 2009 and the cumulative inflation rate over the last three years, the restrictions to the official foreign exchange market, and, finally, the devaluation of the bolivar on January 8, 2010.

Effectiveness of control systems

In accordance with the information appearing in Note 2 ("Basis of presentation of the consolidated financial statements" of the notes to the consolidated financial statements of Telefónica, S.A. for the year ended December 31, 2010, throughout 2009 and in the early part of 2010, a number of factors arose in the Venezuelan economy that led the Telefónica Group to reconsider how it translates the financial statements of investees and the recovery of its financial investments there. These include the level of inflation reached in 2009 and the cumulative inflation rate over the last three years, restrictions to the official foreign exchange market and, finally, the devaluation of the bolivar on January 8, 2010.

As a result, in accordance with IFRS, Venezuela must be considered a hyperinflationary economy in 2009. The main implications of this are as follows:

- Adjustment of the historical cost of non-monetary assets and liabilities and the various items of equity of these companies from their date of acquisition or inclusion in the consolidated statement of financial position to the end of the year for the changes in purchasing power of the currency caused by inflation.

The cumulative impact of the accounting restatement to adjust for the effects of hyperinflation for years prior to 2009 is shown in translation differences at the beginning of the 2009 financial year.

- Adjustment of the income statement to reflect the financial loss caused by the impact of inflation in the year on net monetary assets (loss of purchasing power).
- Adjustments of the various components in the income statement and statement of cash flows for the general price index from the dates the components were contributed or arose, with a balancing entry in net financial results and an offsetting item in the statement of cash flows, respectively.
- All components of the financial statements of the Venezuelan companies have been translated at the closing exchange rate.

In addition, regarding the devaluation of the Venezuelan bolivar on January 8, 2010, the two main factors to consider with respect to the Telefónica Group's 2010 financial statements are:

- The decrease in the Telefónica Group's net assets in Venezuela as a result of the new exchange rate, with a balancing entry in equity of the Group.
- The translation of results and cash flows from Venezuela at the new devalued closing exchange rate.

D.3 Indicate whether there is a committee or other governing body in charge of establishing and supervising these control systems.

Yes

If so, please explain its duties.

Name of Committee or Body	Description of duties
Audit and Control Committee	<p>The Board of Directors of Telefónica, S.A. has constituted an Audit and Control Committee whose powers and duties and rules of operation are set out in the Company Bylaws and in the Regulations of the Board of Directors. Such regulations comply with all legal requirements as well as with the recommendations for good corporate governance issued by both national and international bodies.</p> <p>Unless dealing with specific issues, the following shall be invited to attend Committee meetings: the External Auditor, representatives of the Legal General Secretariat and the Board, as well as representatives from the following departments: Strategic, Finance and Development, Internal Audit, Intervention and Inspection, Planning, Budgets and Control, Operations and Human Resources</p> <p>Occasionally, as mentioned above, other managers from within the Group are invited to inform the Committee on specific areas of interest to it.</p> <p>The duties of the Committee are established in the Company Bylaws of Telefónica, S.A. (art. 31 bis), and in the Regulations of the Board of Directors (art. 21), as described in section B.2.3 of this Report.</p> <p>In addition, the Company has designed a system of information to which the Chairman and the members of the Audit and Control Committee have access, through which they can obtain, if they wish, information on the conclusions of internal auditing reports and on the fulfillment of recommendations subject to specific monitoring.</p> <p>Likewise, within the Group, Committees have been set up in those companies whose shares are listed on stock market in countries other than Spain, with similar duties to those described for the Audit and Control Committee of Telefónica, S.A.</p>

D.4 Identify and describe the processes for compliance with the regulations applicable to the company and/or its group.

The vast majority of the companies comprising the Telefónica Group operate in the telecommunications sector, which is subject to regulation in nearly all the countries where the Group is present. Among the basic objectives of the internal control model described above is compliance with laws and regulations that affect the Telefónica Group's activities. In particular, the Group has units exercising specific control over this type of risk, especially through its legal services and in the areas of corporate regulation in the Group companies.

E General Shareholders' Meetings

E.1 Indicate the quorum required for constitution of the General Shareholders' Meeting established in the company's bylaws. Describe how it differs from the system of minimum quorums established in the LSA.

No

	Quorum % other than that established in article 102 of the LSA for general cases	Quorum % other than that established in article of the LSA for the special cases described in article 103
Quorum required for first call	0	0
Quorum required for second call	0	0

E.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework set forth in the LSA:

Yes

Describe how they differ from the rules established under the LSA.

Description of differences

Article 21 of the Company Bylaws establishes that the General Shareholders' Meeting shall adopt its resolutions with the majority of votes established by law, cast by the shareholders present in person or by proxy.

Each share whose holder is present at the General Shareholders' Meeting in person or by proxy shall give the right to one vote, except in the case of non-voting shares, subject to the provisions of Law.

Notwithstanding the provisions of the preceding paragraph, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder.

In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed, and those held by other shareholders that have granted their proxy to the first-mentioned shareholder shall not be computed, without prejudice to the application of the aforementioned limit of 10 percent to each of the shareholders that have granted a proxy.

The limitation established in the preceding paragraphs shall also apply to the maximum number of shares that may be cast (individually or collectively) by a single shareholder or by shareholders belonging to the same group, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

For purposes of the provisions contained in the preceding paragraph, the provisions of Section 4 of the current Securities Market Act of July 28, 1998 (in the reference to article 42 of the Commercial Code) shall apply in order to decide whether or not a group of entities exists and to examine the situations of control indicated above.

Without prejudice to the limitations upon the right to vote described above, all shares present at the Meeting shall be computed for purposes of determining the existence of a quorum in constituting the Meeting, provided, however, that the 10-percent limit on the number of votes established in this article shall apply to such shares at the time of voting.

Notwithstanding the above, in accordance with the provisions of article 515 of the Spanish Corporations Law, from July 1 2011 any clauses in the bylaws of listed corporations that restrict the number of shares that may be cast by a single shareholder or by shareholders belonging to the same group will be null and void.

E.3 List all shareholders' rights regarding the General Shareholders' Meetings other than those established under the LSA.

Telefónica grants all shareholders the rights related to the General Shareholders' Meetings set out in the LSA.

Likewise, with a view to encouraging shareholders' participation in the GSM, pursuant to Article 11 of the Regulations for the General Shareholders' Meeting of Telefónica, S.A., shareholders may at all times and after providing evidence of their status as such, make suggestions through the Shareholder Assistance Service [Oficina de la Accionista] regarding the organization and operation of the General Shareholders' Meeting and the powers of the shareholders thereat.

E.4 Indicate the measures, if any, adopted to encourage participation by shareholders at General Shareholders' Meetings.

The primary goal of the Regulations of the General Shareholders' Meeting of Telefónica, S.A. is to offer the shareholder a framework that guarantees and facilitates the exercise of their rights in their relationship with the governing body of the Company. Particular emphasis is placed on the shareholders' right to receive information and to participate in the deliberations and voting, by ensuring the widest possible dissemination of the call to meeting and of the proposed resolutions that are submitted to the shareholders at the General Shareholders' Meeting. In addition to the measures required by

the applicable law in effect, the following are specific measures envisaged in the Regulation of the General Shareholders' Meeting with a view to facilitating shareholders' attendance and participation in the Meeting:

Website

From the date of publication of the notice of the call to the General Shareholders' Meeting, and in order to facilitate shareholders' attendance and participation therein, the Company shall include in its website, to the extent available and in addition to the documents and information required by the Law, all materials that the Company deems advisable for such purposes and in particular, but not exclusively, the following:

- a) The text of all the proposed resolutions that are to be submitted to the shareholders at the General Shareholders' Meeting and that have by then been approved by the Board of Directors, provided, however, that the Board of Directors may amend such proposals up to the date of the Meeting when so permitted by the Law.
- b) Information regarding the place where the General Shareholders' Meeting is to be held, describing, when appropriate, the means of access to the meeting room.
- c) The procedure to obtain attendance cards or certificates issued by the entities legally authorized to do so.
- d) The means and procedures to grant a proxy for the General Shareholders' Meeting.

- e) If established, the means and procedures to cast votes from a distance.
- f) Any other matters of interest for purposes of following the proceedings at the Meeting, such as whether or not simultaneous interpretation services will be provided, the possibility that the General Shareholders' Meeting be followed by audio-visual means, or information in other languages.

The Company shareholders may obtain all the aforementioned information through the corporate website, or may request that it be sent or delivered to them without charge through the mechanisms established on the website for this purpose.

Suggestions made by the shareholders

As indicated above, without prejudice to the shareholders' right, in such cases and under such terms as are provided in the Law, to have certain matters included in the Agenda for the Meeting that they request be called, the shareholders may at all times and after providing evidence of their status as such, make suggestions through the Shareholder Assistance Service [Oficina del Accionista] regarding the organization and operation of the General Shareholders' Meeting and the powers of the shareholders thereat.

Likewise, through the Shareholder Assistance Service, shareholders may request all types of information, documentation and clarifications required in relation to the General Shareholders' Meeting, either through the Company website or by calling the toll-free line.

Proxy granting and representation

The Chairman of the General Shareholders' Meeting, or the Secretary for the Meeting acting under a delegation of powers, shall resolve all questions arising in connection with the validity and effectiveness of the documents setting forth the right of any shareholder to attend the General Shareholders' Meeting, whether individually or by grouping shares with other shareholders, as well as the granting of a proxy or of powers of representation to another person, and shall ensure that only such documents as fail to meet the minimum essential requirements are considered invalid or ineffective and provided that the defects therein have not been rectified.

E.5 Indicate whether the General Shareholders' Meetings is presided by the Chairman of the Board of Directors. List measures, if any, adopted to guarantee the independence and correct operation of the General Shareholders' Meeting.

Yes

Details of measures

The General Shareholders' Meeting of Telefónica, S.A. has established its principles of organization and operation in a set of Regulations, approved by the General Shareholders' Meeting, and the Chairman must always act in line with the principles, criteria and guidelines set out therein.

In addition to establishing the principles of organization and operation of the General Shareholders' Meeting, gathering and organizing the different aspects of calling, organizing and holding the General Shareholders' Meeting in a single text, the document provides mechanisms to:

- Facilitate shareholders' exercise of their relevant rights, with particular attention to the shareholders' right to information and to participate in the deliberations and voting.
- Ensure the utmost transparency and efficiency in the establishment of the shareholders' will and in decision-making at the Meeting, ensuring the widest possible dissemination of the call to meeting and of the proposed resolutions.

Furthermore, in accordance with the Regulations of the Board of Directors, the conduct of the Chairman of the Board must always be in accordance with the decisions and criteria established by the shareholders at the General Shareholders' Meeting (in addition to the Board of Directors and the Board Committees).

E.6 Indicate the amendments, if any, made to the General Shareholders' Meeting regulations during the year.

In 2010, no amendments were made to the Regulations for the General Shareholders' Meeting of Telefónica, S.A.

E.7 Indicate the attendance figures for the General Shareholders' Meetings held during the year:

Date of general meeting	Attendance data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other	
06-02-2010	5,266	51.337	0.000	0.000	56,603

E.8 Briefly indicate the resolutions adopted at the General Shareholders' Meetings held during the year and the percentage of votes with which each resolution was adopted.

General Shareholders' Meeting - June 2, 2010

Items on agenda	Summary of proposal	Votes in favor	Votes against	Abstentions	Result of the vote
I	Approval of the Annual Accounts for Fiscal Year 2009.	2,438,373,743 (94.39%)	19,365,905 (0.75%)	125,643,914 (4.86%)	Approved
II	Distribution of a dividend to be charged to unrestricted reserves.	2,461,526,695 (95.28%)	1,525,207 (0.06%)	120,331,660 (4.66%)	Approved
III	Authorization for acquisition of the Company's own shares, directly or through companies of the Group.	2,422,022,950 (93.75%)	37,440,060 (1.45%)	123,920,552 (4.80%)	Approved
IV	Delegation in favor of the Board of the power of issuing securities.	2,104,289,830 (81.45%)	294,732,182 (11.41%)	184,361,550 (7.14%)	Approved
V	Re-election of the Auditor for Fiscal Year 2010.	2,461,187,811 (95.27%)	2,749,057 (0.11%)	119,446,694 (4.62%)	Approved
VI	Delegation of powers to formalize, interpret, correct and implement the resolutions adopted by the General Shareholders' Meeting.	2,445,794,459 (94.67%)	12,868,465 (0.50%)	124,720,638 (4.83%)	Approved

E.9 Indicate whether the bylaws impose any minimum requirement on the number of shares needed to attend the General Shareholders' Meetings:

Yes

Number of shares required to attend the General Shareholders' Meetings	300
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E.10 Indicate and explain the policies pursued by the company with reference to proxy voting at the General Shareholders' Meeting.

As indicated above, with a view to facilitating shareholders' attendance and participation in the General Shareholders' Meetings, the Company has established the following policies in keeping with the legislation in effect:

Voting by proxy at the General Shareholders' Meeting:

- Every shareholder having the right to attend the General Shareholders' Meeting may be represented thereat by another person, even if not a shareholder. The proxy must be granted specifically for each Meeting, either by using the proxy-granting form printed on the attendance card or in any other manner permitted by the Law.
- Shareholders that do not hold the minimum number of shares required to attend the Meeting (300 shares) may at all times grant a proxy in respect thereof to a shareholder having the right to attend the Meeting, as well as group together with other shareholders in the same situation until reaching the required number of shares, following which a proxy must be granted to one of such shareholders.

Voting instructions:

- The documents setting forth the proxies or powers of attorney for the General Shareholders' Meeting shall contain instructions regarding the direction of the vote. If no express instructions are given, it shall be understood that the proxy-holder must vote in favor of the proposed resolutions put forward by the Board of Directors regarding the matters on the agenda and against those proposals which, albeit not included in the Agenda, may be submitted to a vote in said Meeting.

Proxies:

- If the document setting forth the proxy or power of attorney does not state the specific person or persons to whom the shareholder grants the proxy, such proxy shall be deemed granted in favor of any of the following: the Chairman of the Board of Directors of the Company, or the person that stands in for him as Chairman of the General Shareholders' Meeting, or such person as is appointed by the Board of Directors, with notice of such appointment being given in advance in the official notice of the call to meeting.

Finally, to facilitate the maximum participation by shareholders, the Chairman of the General Shareholders' Meeting, or the Secretary for the Meeting acting under a delegation of powers, shall resolve all questions arising in connection with the validity and effectiveness of the documents setting forth the right of any shareholder to attend the General Shareholders' Meeting, as well as the granting of a proxy or of powers of representation to another person, and shall ensure that only such documents as fail to meet the minimum essential requirements are considered invalid or ineffective and provided that the defects therein have not been rectified.

E.11 Indicate whether the company is aware of the policy of institutional investors on whether or not to participate in the company's decision-making processes:

No

E.12 Indicate the address and mode of accessing corporate governance content on your company's website.

Telefónica complies with the applicable legislation and best practices in terms of the content of the website concerning Corporate Governance. In this respect, it fulfils both the technical requirements for access and for content for the Company website, through direct access from the homepage of Telefónica, S.A. (www.telefonica.es) in the section "Shareholders and Investors" (<http://www.telefonica.es/investors/>), which includes not only all of the information that is legally required, but also information that the Company considers to be of interest.

All the available information included on the Company website, except for certain specific documents, is available in three languages: Spanish, Portuguese and English.

F Degree of Compliance with Corporate Governance Recommendations

Indicate the degree of the company's compliance with Corporate Governance recommendations.

Should the company not comply with any of them, explain the recommendations, standards, practices or criteria the company applies.

1. **The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

See sections: **A.9 , B.1.22 , B.1.23 and E.1 , E.2.**

Explain

According to Article 21 of the Company's Bylaws, no shareholder can exercise votes in respect of more than 10 per cent of the total shares with voting rights outstanding at any time, irrespective of the number of shares they may own. This restriction on the maximum number of votes that each shareholder can cast refers solely to shares owned by the shareholder concerned and cast on their own behalf. It does not include additional votes cast on behalf of other shareholders who may have appointed them as proxy, who are themselves likewise restricted by the 10 per cent voting ceiling.

The limitation established in the preceding paragraph shall also apply to the maximum number of shares that may be cast (individually or collectively) by a single shareholder or by shareholders belonging to the same group, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

In addition, Article 25 of the Bylaws stipulates that no person may be appointed as Director unless they have held, for more than three years prior to their appointment, a number of shares of the Company representing a nominal value of at least 3,000 euros, which shares the Director may not transfer while in office. These requirements shall not apply to those persons who, at the time of their appointment, are related to the Company under an employment or professional relationship, or when the Board of Directors resolves to waive such requirements with the favorable vote of at least 85 percent of its members.

Article 26 of the Bylaws establishes that, in order for a Director to be appointed Chairman, Vice Chairman, Chief Executive Officer or member of the Executive Commission, it shall be necessary for such Director to have served on the Board for at least the three years immediately prior to any such appointment. However, such length of service shall not be required if the appointment is made with the favorable vote of at least 85 percent of the members of the Board of Directors.

The Company Bylaws (article 21) restrict the number of shares that may be cast by a single shareholder or by shareholders belonging to the same group in order to achieve a suitable balance and protect the position of minority shareholders, thus avoiding a potential concentration of votes among a reduced number of shareholders, which could impact on the guiding principle that the General Shareholders' Meeting must act in the interest of all the shareholders. Telefónica believes that this measure does not entail a device designed to block public tender offers, but rather guarantees that any takeover shall require, in the interest of all shareholders, an offer for one hundred percent of the capital, because, naturally, and as taught by experience, potential offerors may make their offer conditional upon the removal of the defense mechanism.

Notwithstanding the above, in accordance with the provisions of article 515 of the Spanish Corporations Law, from July 1 2011 any clauses in the bylaws of listed corporations that restrict the number of shares that may be cast by a single shareholder or by shareholders belonging to the same group will be null and void.

In addition, the special requirements for appointment as Director (Article 25 of the Bylaws) or as Chairman, Vice Chairman, Chief Executive Officer or member of the Executive Commission (Article 26 of the Bylaws) are justified by the desire that access to the management decision-making body and to the most significant positions thereon is reserved to persons who have demonstrated their commitment to the Company and who, in addition, have adequate experience as members of the Board, such that continuity of the management model adopted by the Telefónica Group may be assured in the interest of all of its shareholders and stakeholders. In any event, these special requirements may be waived by broad consensus among the members of the Board of Directors, namely, with the favorable vote of at least 85 percent of its members, as provided by the aforementioned articles of the Bylaws.

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them as well as between the listed subsidiary and the other group companies;

b) The mechanisms in place to resolve possible conflicts of interest.

See sections: C.4 and C.7

Not applicable

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval or ratification. In particular:

a) The transformation of listed companies into holding companies through the process of subsidiarization, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;

b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;

c) Operations that effectively add up to the company's liquidation;

Complies

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.

Complies

5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

a) The appointment or ratification of directors, with separate voting on each candidate;

b) Amendments to the bylaws, with votes taken on all articles or group of articles that are materially different.

See section: E.8

Complies

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

See section: E.4

Complies

7. The Board of Directors should perform its duties with unity of purpose and independent judgment, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximize its value over time.

It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies

8. The board should see the core components of its mission as to approve the company's strategy and authorize the organizational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

a) The company's general policies and strategies, and in particular:

- i) The strategic or business plan, management targets and annual budgets;
- ii) Investment and financing policy;
- iii) Design of the structure of the corporate group;
- iv) Corporate governance policy;
- v) Corporate social responsibility policy;
- vi) Remuneration and evaluation of senior officers;
- vii) Risk control and management, and the periodic monitoring of internal information and control systems;
- viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

- i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

See section: B.1.14.

- ii) Directors' remuneration, and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.

See section: B.1.14.

- iii) The financial information that all listed companies must periodically disclose.

- iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting;

- v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorization need not be required for related-party transactions that simultaneously meet the following three conditions:

- 1^a. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;
- 2^a. They go through at market prices, generally set by the person supplying the goods or services;
- 3^a. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favorable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: C.1 and C.6

Complies

9. **In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.**

See section: B.1.1

Explain

The complexity of the Telefónica Group organizational structure, given the considerable number of companies it comprises, the variety of sectors it operates in, its multinational nature, as well as its economic and business relevance, justify the fact that the number of members of the Board is adequate to achieve an efficient and operative operation.

In addition, it is important to bear in mind the Company's large number of Board committees, which ensures the active participation of all its Directors.

10. **External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

See sections: A.2, A.3, B.1.3 and B.1.14.

Complies

11. **In the event that some external director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links that person maintains with the company or its senior officers, or its shareholders.**

See section: B.1.3

Complies

12. **That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.**

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

- 1.º **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, but where there are shareholders with high absolute value shareholdings.**

- 2.º **In companies with a plurality of shareholders represented on the board but not otherwise related.**

See sections: B.1.3, A.2 and A.3

Explain

The aforementioned recommendation number 12 refers to the composition of the group of external Directors. As stated in section B.1.3 of this Annual Corporate Governance Report, at 31 December 2010, the group of external Directors of Telefónica, S.A. was composed of 14 members (of a total of 17 Members), of whom four are proprietary Directors, eight are independent and two fall under the "other external Directors" category.

Of the four proprietary directors, two act in representation of Caja de Ahorros y Pensiones de Barcelona ("la Caixa"), which holds 5.050% of the capital stock of Telefónica, S.A., and two act in representation of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), which holds 6.279% of the capital stock.

Applying the proportional criteria established in article 243 of the Spanish Corporations Law (and formerly in article 137 of the LSA, to which Recommendation 12 of the Unified Code refers to), regarding the total number of directors, the stakes held by "la Caixa" and BBVA are sufficient to entitle each entity to appoint a director.

Moreover, it must be taken into account that Recommendation 12 stipulates that this strict proportionality criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

In this regard, Telefónica is the listed company on Spanish stock exchanges with the highest stock market capitalization, reaching the figure of 77,451 million euros at 31 December 2010, which means a very high absolute value of the stakes of "la Caixa" and BBVA in Telefónica (that of "la Caixa" is 3,911 million euros, and that of BBVA is 4,863 million euros), which justifies the overrepresentation of these entities on the Board of Directors, rising from one member of the board each (to which they would strictly have the right in accordance with Article 243 of the Spanish Corporations Law) to two members, i.e. permitting the appointment of just one more proprietary director over the strictly legal proportion.

13. **The number of independent directors should represent at least one third of all board members.**

See section: B.1.3

Complies

14. The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: B.1.3 and B.1.4

Complies

15. When women directors are few or non-existent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the Nomination Committee should take steps to ensure that:

- a) The process of filling board vacancies has no implicit bias against women candidates;
- b) The company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: B.1.2, B.1.27 and B.2.3.

Explain

In fact, the search for women who meet the necessary professional profile is a question of principle and, in this regard, it is clear that Telefónica has taken this concern on board. In this regard, it should be noted that, on January 23, 2008, the Board of Directors unanimously agreed to appoint, by means of interim appointment and at the proposal of the Nominating, Compensation and Corporate Governance Committee, Ms. María Eva Castillo Sanz as an Independent Director of Telefónica. This appointment was ratified by the Ordinary General Shareholders' Meeting of Telefónica held on April 22, 2008, and she was thus appointed as a Member of the Board of the Company for a term of five years.

Likewise, on December 19, 2007, the Board of Directors unanimously agreed, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, to appoint Ms. María Luz Medrano Aranguren as the Deputy Secretary General and Secretary of the Board of Directors of Telefónica.

Article 10.3. of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

Therefore, the selection procedure described above is based exclusively on the personal merits of the candidates ("recognized caliber, qualifications and experience") and their ability to dedicate themselves to the functions of members of the board, so there is no implicit bias capable of impeding the selection of women directors, if, within the potential candidates, there are women candidates who meet the professional profile sought at each moment.

16. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organize and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See section: B.1.42

Complies

17. When a company's Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.

See section: B.1.21

Partially complies

Although there are no specific powers granted to an independent Director to these effects, the Company considers that this recommendation can be deemed as complied with for the following reasons:

- In accordance with Article 29 of the Regulations of the Board of Directors, all the Directors of the Company, including all independent Directors, may request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.
- In addition, in accordance with article 13.3 of said Regulations, the Chairman of the Nominating, Compensation and Corporate Governance Committee – a post that shall always be given to an independent Director (article 22 of the Regulations) – and the Chairman of the Board of Directors shall be responsible for organizing and coordinating a periodic assessment of the Board.

18. The Secretary should take care to ensure that the board's actions:

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;
- b) Comply with the company bylaws and the regulations of the General Shareholders' Meeting, the Board of Directors and others;
- c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board's regulations.

See section: B.1.34

Complies

19. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See section: B.1.29

Complies

20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.

See sections: B.1.28 and B.1.30

Complies

21. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Complies

22. The board in full should evaluate the following points on a yearly basis:

- a) The quality and efficiency of the board's operation;
- b) Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;
- c) The performance of its committees on the basis of the reports furnished by the same.

See section: B.1.19

Complies

23. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See section: B.1.42

Complies

24. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See section: B.1.41

Complies

25. Companies should organize induction programs for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programs when circumstances so advise.

Complies

26. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

- a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;
- b) Companies should lay down rules about the number of directorships their board members can hold.

See sections: B.1.8, B.1.9 and B.1.17

Complies

27. The proposal for the appointment or renewal of directors which the board submits to the General Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the board:

- a) On the proposal of the Nomination Committee, in the case of independent directors.
- b) Subject to a report from the Nomination Committee in all other cases.

See section: B.1.2

Complies

28. Companies should post the following director particulars on their websites, and keep them permanently updated:

- a) Professional experience and background;
- b) Directorships held in other companies, listed or otherwise;
- c) An indication of the director's classification as executive, proprietary or independent; In the case of proprietary directors, stating the shareholder they represent or have links with.
- d) The date of their first and subsequent appointments as a company director; and;
- e) Shares held in the company and any options on the same.

Complies

29. Independent directors should not stay on as such for a continued period of more than 12 years.

See section: B.1.2

Complies

30. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See sections: A.2 , A.3 and B.1.2

Complies

31. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III. 5 (Definitions) of this Code.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

Complies

32. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organization's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in article 124 of the Public Limited Companies Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: B.1.43, B.1.44

Complies

33. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

Complies

34. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

See section: B.1.5

Not applicable

35. The company's remuneration policy, as approved by its Board of Directors, should specify at least the following points:

a) The amount of the fixed components, itemized, where necessary, of board and board committee attendance fees, with an estimate of the fixed annual remuneration they give rise to;

b) Variable components, in particular:

i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items.

ii) Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related remuneration;

iii) The main parameters and grounds for any system of annual bonuses or other non cash benefits; and

iv) An estimate of the sum total of variable payments rising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.

c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.

d) The conditions to apply to the contracts of executive directors exercising senior management functions. Among them:

i) Duration;

ii) Notice periods; and

iii) Any other clauses covering hiring bonuses, as well as indemnities or 'golden parachutes' in the event of early termination of the contractual relation between company and executive director.

See section: B.1.15

Complies

36. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

See sections: A.3, B.1.3

Complies

37. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Complies

38. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Not applicable

39. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

Complies

40. The Board should submit a report on the directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each company sees fit.

The report will focus on the remuneration policy the board has approved for the current year, with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

The role of the Remuneration Committee in designing the policy should be reported to the Meeting, along with the identity of any external advisors engaged.

See section: B.1.16

Partially complies

At the Company's Ordinary General Shareholders' Meeting, the annual report regarding the Board of Directors compensation policy is given to shareholders for information purposes, containing the information stipulated in recommendation 40 of the Unified Good Governance Code and made available to shareholders from the date of publication of the call for the General Shareholders' Meeting.

Telefónica provides extensive information at its Annual General Shareholders' Meetings, through the presentations made thereat by the General Secretary and Secretary of the Board of Directors of the Company, regarding the contents and highlights of such Report on the Compensation Policy for the Board of Directors.

As regards submitting such report to a consultative vote at the General Shareholders' Meeting, as a separate item on the agenda, Telefónica has not deemed it advisable because it believes that this matter falls outside the purview of the shareholders at a General Meeting and, in addition, because it is a highly strategic issue and a vote thereon might therefore lead to open debate at each Meeting, thus generating instability and uncertainty.

41. The notes to the annual accounts should list individual directors' remuneration in the year, including:

a) a breakdown of the compensation obtained by each company director, to include where appropriate:

- i) Participation and attendance fees and other fixed director payments;
- ii) Additional compensation for acting as chairman or member of a board committee;
- iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;
- iv) Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes;
- v) Any severance packages agreed or paid;
- vi) Any compensation they receive as directors of other companies in the group;
- vii) The remuneration executive directors receive in respect of their senior management posts;
- viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.

b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemized by:

- i) Number of shares or options awarded in the year, and the terms set for their execution;
- ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;
- iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;
- iv) Any change in the year in the exercise terms of previously awarded options.

c) Information on the relation in the year between the remuneration obtained by executive directors and the company's profits, or some other measure of enterprise results.

Partially complies

In accordance with article 28.4 of the Company Bylaws, the Notes to the Financial Statements shall set forth the compensation corresponding to each position or office on the Board and the Committees thereof (Chairman, Vice Chairman, Member). The compensation payable to executive Directors shall be reflected as an aggregate figure, but shall include a breakdown of the different compensation items.

In addition, the complexity of the organizational structure of the Telefónica Group, the variety and nature of the sectors in which it carries out its activity, its multinational nature and its economic and business relevance, justify the fact that said information is included in the mentioned manner, given that its publication in any other way could damage corporate interests.

42. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.

See sections: B.2.1 and B.2.6

Complies

43. The Board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Complies

44. In addition to the Audit Committee mandatory under the Securities Market Act, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:

- a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;
- b) These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.
- c) Committees should be chaired by an independent director.

d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.

e) Meeting proceedings should be minuted and a copy sent to all board members.

See sections: B.2.1 and B.2.3

Complies

45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

Complies

46. All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Complies

47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Complies

48. The head of internal audit should present an annual work programmed to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies

49. Control and risk management policy should specify at least:

- a) The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance sheet risks;
- b) The determination of the risk level the company sees as acceptable;
- c) Measures in place to mitigate the impact of risk events should they occur;

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

See section: D

Complies

iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

50. The Audit Committee's role should be:

1.º With respect to internal control and reporting systems:

- a) To supervise the preparation process and monitor the integrity of financial information on the Company and, if applicable, the Group, revising compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and correct application of accounting principles.
- b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.
- c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2.º With respect to the external auditor:

- a) Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of his engagement.
- b) Receive regular information from the external auditor on the progress and findings of the audit programmed, and check that senior management are acting on its recommendations.
- c) Monitor the independence of the external auditor, to which end:
 - i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
 - ii) The Committee should ensure that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;

51. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

52. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:

- a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.
- b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
- c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: B.2.2 and B.2.3

Complies

53. The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: B.1.38

Complies

54. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent directors.

See section: B.2.1

Complies

55. The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:

- a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b) Examine or organize, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.
- c) Report on the senior officer appointments and removals which the chief executive proposes to the board.
- d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: B.2.3

Complies

56. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Complies

57. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:

- a) Make proposals to the Board of Directors regarding:
 - i) The remuneration policy for directors and senior officers;
 - ii) The individual remuneration and other contractual conditions of executive directors.
 - iii) The standard conditions for senior officer employment contracts.

b) Oversee compliance with the remuneration policy set by the company.

See sections: B.1.14, B.2.3

Complies

58. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

G Other Information of Interest

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report, indicate and explain below.

GENERAL CLARIFICATION: It is hereby stated that the details contained in this report refer to the Financial Year ended on 31 December 2010, except in those issues in which a different date of reference is specifically mentioned.

- **Note 1 to Section A.3.]** It should be noted that the Company has an Internal Code of Conduct for Securities Markets Issues setting out, among other issues, the general operating principles for Directors and senior executive officers when carrying out personal trades involving securities issued by Telefónica and financial instruments and contracts whose underlying securities or instruments are issued by the Company.

The general operating principles of this Internal Code of Conduct include transactions subject to notification, action limitations as well as the minimum holding period when acquiring securities in the Company, during which time these may not be transferred, except in the event of extraordinary situations that justify their transfer, subject to authorization by the Regulatory Compliance Committee.

- **Note 2 to Section A.3.]** On 24 January 2011, Mr. César Alierta Izuél notified the CNMV of the direct acquisition of 5 shares of Telefónica, S.A.

On 24 January 2011, Mr. Julio Linares López notified the CNMV of the direct acquisition of 5 shares of Telefónica, S.A.

On 24 January 2011, Mr. José María Álvarez-Pallete López notified the CNMV of the direct acquisition of 5 shares of Telefónica, S.A.

- **Note 3 to Section A.3.]** On March 5, 2007, the Executive Chairman of the Company, Mr. César Alierta Izuel, notified the CNMV of the purchase of 8,200,000 European call options on shares of Telefónica, S.A., to be settled by offset, with maturity on March 2, 2011, and an exercise price of 22 euros. In addition, on April 16, 2008, Mr. Alierta notified the National Securities Exchange Commission (CNMV) of the purchase of 2,000,000 European call options on shares of Telefónica, S.A., to be settled by offset, with maturity on March 2, 2011, and an exercise price of 30 euros.

On November 22, 2010, Mr. Carlos Colomer Casellas notified the CNMV of the sale of various put options on shares of Telefónica, S.A., to be settled by offset, with maturity on June 30, 2011. Mr. Colomer holds 49,053 put options on Telefónica shares, with an exercise price of 16.50 euros on 30.303 and 16 euros on the remaining 18.750.

The amounts appearing in Section A.3. of this report under "Number of direct options" (i.e. Mr. César Alierta Izuel, 493,431; Mr. Julio Linares López, 359,926; and Mr. José María Álvarez-Pallete López, 224,286) related to the maximum number of shares corresponding to the third, fourth and fifth phases of the "Performance Share Plan" to be delivered (from July 1, 2011, July 1, 2012 and July 1, 2013) if all the terms established for such delivery are met.

- **Note 4 to Section A.6.]** Expanding on the existing strategic alliance agreement, on January 23, 2011, Telefónica and China Unicom (Hong Kong) Limited ("China Unicom") signed an extension to their Strategic Alliance Agreement, in which both companies agreed to strengthen and deepen their strategic cooperation in certain business areas, and committed to investing the equivalent of 500 million US dollars in ordinary shares of the other party. Telefónica will acquire through its subsidiary Telefónica Internacional, S.A.U. a number of China Unicom shares amounting to 500 million US dollars from third parties, within nine months from the agreement date.

Following the completion of the transaction, Telefónica will hold, through its subsidiary Telefónica Internacional, S.A.U., approximately 9.7% of China Unicom's voting share capital, based on the current share price, while China Unicom will own approximately 1.37% of Telefónica's voting share capital. In recognition of China Unicom's stake in Telefónica, the latter commits to proposing the appointment of a board member named by China Unicom in the next General Shareholders' Meeting, in accordance with prevailing legislation and the Company's Bylaws.

China Unicom completed the acquisition of Telefónica shares on January 28, 2011, giving it ownership of 1.37% of the Company's capital.

- **Note 5 to Section B.1.8.]** Shares in the company International Consolidated Airlines Group, S.A. (IAG) began trading on the London and Spanish stock exchanges on January 24, 2011.

- **Note 6 to Section B.1.10.]** Although the investment and financing policy is not included literally in article 5.4. of the Regulations of the Board of Directors, in practice said policy is the exclusive competency of the Board of Directors of the Company.

- **Note 7 to Section B.1.11.]** In order to ensure maximum transparency in this matter, and in accordance with the information provided in the Notes to the Financial Statements corresponding to the financial year 2010, below we provide the remuneration and benefits received by the Directors of Telefónica, S.A. in the year 2010.

The compensation of Telefónica, S.A.'s Directors is governed by Article 28 of the Bylaws, which states that the compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders' Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify it. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors. In this respect, on April 11, 2003, shareholders set the maximum gross annual amount to be paid to the Board of Directors at 6 million euros. This includes a fixed payment and fees for attending meetings of the Board of Director's advisory or control Committees. In addition, the compensation provided for in the preceding paragraphs, deriving from membership on the Board of Directors, shall be compatible with other professional or employment compensation accruing to the Directors by reason of any executive or advisory duties that they perform for the Company, other than the supervision and collective decision-making duties inherent in their capacity as Directors.

Therefore, the compensation paid to Telefónica Directors in their capacity as members of the Board of Directors, the Executive Commission and/or the advisory and control Committees consists of a fixed amount payable monthly plus fees for attending the meetings of the Board's advisory or control Committees. In this respect, it was also agreed that executive Board members other than the Chairman would not receive the fixed amounts established for their directorships, but only receive the corresponding amounts for discharging their executive duties as stipulated in their respective contracts.

The following table presents the fixed amounts established for membership to the Telefónica Board of Directors, Executive Commission and the advisory or control Committees:

Position	Board of Directors	Executive Commission	Advisory or Control Committees
Euros			
Chairman	300,000	100,000	28,000
Vice Chairman	250,000	100,000	-
Board member:			
Executive	-	-	-
Proprietary	150,000	100,000	14,000
Independent	150,000	100,000	14,000
Other external	150,000	100,000	14,000

In addition, the amounts paid for attendance at each of the Advisory or Control Committee's meetings is 1,250 euros.

Total compensation paid to Telefónica's Directors for discharging their duties in 2010 amounted to 4,136,167 euros in fixed compensation and 321,250 euros in fees for attending the Board's Advisory or Control Committees meetings. It should also be noted that the compensation paid to Company Directors sitting on the Boards of other Telefónica Group companies amounted to 1,780,898 euros. In addition, the Company Directors who are members of the regional advisory Committees, including the Telefónica Corporate University Advisory Council, received a total of 556,250 euros in 2010.

The following table presents the breakdown by item of the compensation and benefits paid to Telefónica's Directors for discharging their duties in 2010:

Board Members	Advisory	Executive Commission	Other Board Committees		Total
			Fixed	Attendance fees	
Euros					
Chairman					
Mr. César Alierta Izuel	300,000	100,000	-	-	400,000
Vice chairmen					
Mr. Isidro Fainé Casas	250,000	100,000	-	-	350,000
Mr. Vitalino Manuel Nafría Aznar	250,000	-	56,000	26,250	332,250
Members:					
Mr. Julio Linares López	-	-	-	-	-
Mr. José María Abril Pérez	150,000	100,000	14,000	3,750	267,750
Mr. José Fernando de Almansa Moreno-Barreda	150,000	-	56,000	26,250	232,250
Mr. José María Álvarez-Pallete López	-	-	-	-	-
Mr. David Arculus	150,000	-	28,000	11,250	189,250
Ms. Eva Castillo Sanz	150,000	-	42,000	23,750	215,750
Mr. Carlos Colomer Casellas	150,000	100,000	56,000	23,750	329,750
Mr. Peter Erskine	150,000	100,000	56,000	36,250	342,250
Mr. Alfonso Ferrari Herrero	150,000	100,000	106,167	48,750	404,917
Mr. Luiz Fernando Furlán	150,000	-	14,000	3,750	167,750
Mr. Gonzalo Hinojosa Fernández de Angulo	150,000	100,000	98,000	51,250	399,250
Mr. Pablo Isla Álvarez de Tejera	150,000	-	84,000	18,750	252,750
Mr. Antonio Massanell Lavilla	150,000	-	70,000	31,250	251,250
Mr. Francisco Javier de Paz Mancho	150,000	100,000	56,000	16,250	322,250
Total	2,600,000	800,000	736,167	321,250	4,457,417

In addition, the breakdown of the total paid to executive Directors Mr. César Alierta Izuel, Mr. Julio Linares López and Mr. José María Álvarez-Pallete López for discharging their executive duties by item is as follows:

Items	2010
Euros	
Salaries	6,356,975
Variable compensation	8,186,448
Compensation in kind ¹	117,290
Contributions to pension plans	25,444

¹ "Compensation in kind" includes life and other insurance premiums (general medical and dental insurance).

In addition, with respect to the Pension Plan for Senior Executives, the total amount of contributions made by the Telefónica Group in 2010 in respect of executive directors was 1,925,387 euros.

In relation to the "Performance Share Plan" approved at the General Shareholders' Meeting of June 21, 2006, the maximum number of shares corresponding to the third, fourth and fifth - and final - phases of the Plan will be given (on July 1, 2011, July 1, 2012 and July 1, 2013) to each of Telefónica, S.A.'s executive Directors if all the terms established for such delivery are met, is as follows: Mr. César Alierta Izuel (148,818 shares in the third phase, 173,716 shares in the fourth phase, and 170,897 shares in the fifth phase); Mr. Julio Linares López (101,466 shares in the third phase, 130,287 shares in the fourth phase and 128,173 shares in the fifth phase); Mr. José María Álvarez-Pallete López (67,644 shares in the third phase, 78,962 shares in the fourth phase and 77,680 shares in the fifth phase). Similarly, with respect to the execution of the second phase of the Plan in July 2010, since the Total Shareholder Return ("TSR") of Telefónica was higher in this phase than the TSRs of companies representing 75% of the market cap of the comparison group, the beneficiaries received, in accordance with the general terms and conditions of the Plan, all the shares assigned to them as follows: Mr. César Alierta Izuel, 116,239 shares; Mr. Julio Linares López, 57,437 shares; Mr. José María Álvarez-Pallete López, 53,204 shares.

Furthermore, at the General Shareholders' Meeting of Telefónica, S.A. on June 23, 2009, its shareholders approved the "Global Employee Share Plan", a Telefónica, S.A. share incentive plan for Group employees worldwide, including executives and executive Directors of the Company.

The three executive Directors decided to participate in this plan, contributing the maximum, i.e. 100 euros a month, over 12 months. Therefore, at the date of preparing these financial statements, the three executive Directors had acquired a total of 78 shares through this plan, whereby they are entitled to receive, free of charge, an equivalent number of shares providing that, among other conditions, they retain the acquired shares during the consolidation period (12 months from the end of the acquisition period).

It should be noted that the external Directors do not receive and did not receive in 2010 any compensation in the form of pensions or life insurance, nor do they participate in the share-based payment plans linked to Telefónica's share price.

In addition, the Company does not grant and did not grant in 2010 any advances, loans or credits to the Directors, or to its top executives, thus complying with the requirements of the U.S.A. Sarbanes-Oxley Act, which is applicable to Telefónica, S.A. as a listed company in that market.

- **Note 8 to Section B.1.1.1.]** Subsection b). The "Fixed Payment" includes both the amounts of the salaries received from other Telefónica Group companies by the members of the Board of Directors in their capacity as executives, and the amount received by the members of the Board of Directors as fixed allowance for belonging to the Board of Directors of any of the companies of the Group or of its respective Committees.

- **Note 9 to Section B.1.1.1.]** It is noted that the total amount of the contributions made by the Telefónica Group during 2010 to the Pension Plan for Senior Executives was 1,925,387 euros on behalf of executive Directors is recorded under the category "Other" in the compensation tables included under points a) and b) of section B.1.11 of the 2010 Annual Corporate Governance Report, as it was done in the Annual Corporate Governance Reports for 2008 and 2009.

This is because said Plan is an employee benefit that differs to the general pension plan by which Telefónica remunerates its employees (including executive Directors) which is recorded under the sections on "Pension Funds and Plans" in the aforementioned section B.1.11 of the Annual Corporate Governance Report.

- **Note 10 to Section B.1.1.2.]** "Total remuneration received by senior management" includes the economic valuation of the compensation received under the "Performance Share Plan", as well as contributions made by the Telefónica Group in 2010 to the Pension Plan.

In order to ensure maximum transparency in this matter, and in accordance with the information provided in the Notes to the Financial Statements corresponding to the financial year 2010, below we provide the remuneration and benefits received by the Senior Executives of Telefónica, S.A. in the year.

The six senior executives of the Company, excluding those that are Directors, received a total for all items in 2010 of 10,830,531 euros. In addition, the contributions made by the Telefónica Group in 2010 with respect to the Pension Plan for these senior executive officers amounted to 926,004 euros.

Furthermore, the maximum number of shares corresponding to the third, fourth and five-an last- phases of the "Performance Share Plan" assigned to the Company's senior executives for each of the periods is: 306,115 shares for the third phase, 394,779 shares for the fourth phase and 350,485 shares for the fifth phase. Similarly, as explained above, these senior executives received a total of 251,681 shares in the second phase of the Plan.

Finally, with regards to the "Global Employee Share Plan", at the date of preparing these Financial Statements, the abovementioned six senior executives had acquired, under this plan, a total of 152 shares.

- **Note 11 to Section B.1.21.]** Although there are no specific powers granted to an independent Director to these effects, the Company considers that this recommendation can be deemed as complied with for the following reasons:
 - In accordance with Article 29 of the Regulations of the Board of Directors, all the Directors of the Company, including all independent Directors, may request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.
 - Furthermore, in accordance with Article 13.3 of said Regulations, the Chairman of the Board of Directors, together with the Chairman of the Nominating, Compensation and Corporate Governance Committee – who shall in all events be an independent Director (Article 22 of the Regulations) – shall be responsible for organizing and coordinating a periodic assessment of the Board.
- **Note 12 to Section B.1.29.]** In 2010, the other Board Committees held the following meetings:
 - Human Resources and Corporate Reputation and Responsibility Committee: 5
 - Regulation Committee: 5
 - Service Quality and Customer Service Committee: 4
 - International Affairs Committee: 4
 - Innovation Committee: 11
 - Strategy Committee: 11
- **Note 13 to Section B.1.31.]** In accordance with the US securities market regulations, the information contained in the Annual Report on form 20-F (which includes the consolidated Annual Financial Statements of the Telefónica Group), filed with the Securities and Exchange Commission, is certified by the Executive Chairman of the Company, Mr. César Alierta Izuel, and by the General Manager of Strategy, Finance and Development, Mr. Santiago Fernández Valbuena. This certification is made after the Financial Statements have been prepared by the Board of Directors of the Company.
- **Note 14 to Section B.1.39.]** Financial year 1983 was the first audited by an external auditor. Prior to that, the financial statement were revised by chartered accountants ('censores de cuentas'). Therefore, 1983 is the base year taken for calculating the percentage in the case of audits of the Individual Annual Accounts of Telefónica, S.A. and 1991 is the date taken for the calculation of the percentage in the case of the Consolidated Annual Accounts, as 1991 was the first year in which the Telefónica Group prepared Consolidated Annual Accounts.
- **Note 15 to Section C.2.]** The transactions included under "Commitments Undertaken" in amounts of 11,062,000, 134,637, 800,000 and 407 euros, the first two of which are with Banco Bilbao Vizcaya Argentaria, S.A. and the last two with Caja de Ahorros y Pensiones de Barcelona, "la Caixa", entail transactions with derivatives.
- **Note 16 to Section F. Recommendation 34]** Notwithstanding the information provided in this section, it is hereby noted that in 2010 no Director of the Company gave up their office before their tenure expired.

You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

Binding definition of independent director:

List any independent directors who maintain, or have maintained in the past, a relationship with the company, its significant shareholders or managers, when the significance or importance thereof would dictate that the directors in question may not be considered independent pursuant to the definition set forth in section 5 of the Unified Good Governance Code.

No

This annual corporate governance report was approved by the company's Board of Directors at its meeting held on 23 February 2011.

Indicate whether any directors voted against or abstained from voting on the approval of this report.

No

02

Report on the Compensation Policy of the Board of Directors of Telefónica, S.A.

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Report on the Compensation Policy of the Board of Directors of Telefónica, S.A.

I. Introduction

As provided in Article 36 of the Regulations of the Board of Directors of Telefónica, S.A. (“**Telefónica**” or the “**Company**”), each year the Board must approve, at the proposal of the Nominating, Compensation and Corporate Governance Committee, a Report on the compensation policy of the Directors of the Company, which must set forth the standards and the basis for determining the compensation system for the Directors for the current year (in this case, for fiscal year 2011). Such Report must also include an overall summary of the compensation system applied during the prior year (i.e., 2010), describing the standards and general principles followed for the establishment and practical application thereof.

Therefore, pursuant to the proposal of the Nominating, Compensation and Corporate Governance Committee, this Report was approved by the Board of Directors of the Company at its meeting held on February 23, 2011. To prepare this document, the Board drew on the advice and cooperation of the Company’s Directorate of Corporate Human Resources, as well as on the assistance of the consulting firm Towers Watson.

This Report will be made available to the shareholders of the Company on the Company’s website (www.telefonica.es/accionistas/inversores) and will be submitted to the shareholders at the Ordinary General Shareholders’ Meeting of the Company.

II. Process for the preparation of the compensation system and policy

The compensation system and policy of the Board of Directors of Telefónica and the process to be used in the preparation thereof are established in its By-Laws (Article 28) and in its Regulations of the Board of Directors (Article 35). As provided in the above-mentioned regulations, the Board of Directors, upon the proposal of the Nominating, Compensation and Corporate Governance Committee, determines, within the maximum limit established by the shareholders at the General Shareholders’ Meeting of the Company, the amount that the Directors are to receive for discharging their duties of collective supervision and decision-making inherent in such position. The By-Laws also provide, in addition to and independently of the compensation mentioned above, for the possibility of the shareholders at the General Shareholders’ Meeting resolving to establish compensation systems for the Directors that are linked to the listing price of the shares or that entail the delivery of shares or of options on shares.

The above-mentioned compensation, deriving from membership on the Board of Directors of the Company, is compatible with the other compensation received by the Directors by reason of the executive duties that they perform for the Company or by reason of any other advisory duties that they may perform for the Company, other than those inherent in their status as Directors.

To determine the amount to be paid to the Directors, the Board of Directors endeavors to ensure at all times that the compensation of the Directors is commensurate with the compensation paid at similarly-sized companies carrying on similar business in the market.

For its part, the Nominating, Compensation and Corporate Governance Committee performs an annual review of the Director compensation policy in order to propose to the Board of Directors, if required, the adoption of the resolutions deemed appropriate in connection with this matter.

In determining compensation, the Board of Directors of the Company also takes into account the responsibility and the level of commitment entailed by the role each Director is called upon to play and market requirements, using standards of moderation for such purpose that have been duly verified by the reports provided by professional experts on the matter. In this regard, and in accordance with the principles of action contained in Article 7 of the Regulations of the Board of Directors, the Board carries out its duties in accordance with the corporate interest, meaning the interests of the Company; and in that vein acts to ensure the long-term viability of the Company as a going concern and to maximize its value, while also weighing the various legitimate public or private interests that converge in the performance of all corporate activities.

The important role played by the Nominating, Compensation and Corporate Governance Committee in the determination of the compensation system and policy of the Directors is particularly worthy of mention. Thus, Article 22 of the Regulations of the Board of Directors of the Company provides that it shall fall upon such Committee, among other duties and powers: i) to propose to the Board of Directors, within the framework established in the Bylaws, the compensation of the Directors and to review it periodically to bring it into line with the duties discharged by them; and ii) to propose, within the framework established in the By-Laws, the extent and amount of the financial remuneration, rights and compensation of the Chairman, executive Directors and Senior Managers, including the basic terms of their contracts.

III. Description of the basic objectives of the compensation system and policy

As regards the basic objectives of the compensation system and policy of the Directors of Telefónica, a distinction must be made between external Directors (who do not perform any executive duties for the Telefónica Group), and executive Directors, who perform senior management duties or are employees of the Company or its Group.

External Directors:

As far as external Directors are concerned (i.e., proprietary, independent and other external Directors), the aim of the compensation policy is to adequately compensate the Directors for the dedication provided and the responsibility assumed, seeking to avoid such compensation compromising their independence.

Executive Directors:

The basic standard underlying Telefónica's compensation policy for executive Directors is to establish compensation packages that will make it possible to attract, retain and motivate the most distinguished professionals, so as to allow the Company to achieve its strategic aims within the ever more competitive and internationalized framework in which it operates.

From this viewpoint, Telefónica's compensation policy seeks to:

- (i) Ensure that the compensation package, in its structure and overall amount, is competitive with that of comparable international entities. In particular, given the size of the Telefónica Group and its multinational scope, the largest European multinational companies are taken as the main point of reference.
- (ii) Provide incentives for the sustained creation of value for the shareholders over time. To that end, the compensation includes significant short, medium and long-term variable components:
 1. Annual variable compensation is linked to the achievement of specific and quantifiable business objectives that are in line with the interests of the Company and have an impact on the creation of value, as well as to the evaluation of individual performance. Objectives are adjusted to the strategic priorities of the business on an annual basis.
 2. Medium/long-term compensation is linked to the creation of value for the shareholders.

Taking the foregoing considerations into account, the Company's Board of Directors, upon the prior proposal of the Nominating, Compensation and Corporate Governance Committee, in line with current international corporate governance best practices in the area of executive compensation (which show a growing trend for the compensation of executive Directors other than the Chairman to be basically linked to the performance of their executive duties), has resolved that, beginning in September 2007, members of the Board who are executives of the Company other than the Chairman are to receive only those amounts for the performance of their executive duties that are established in their respective contracts.

IV. Structure of Directors' compensation

Based on the foregoing, below is a description of the structure established for the current compensation of Directors:

1. Structure of the compensation of Directors due to their status as such

The compensation accruing to Directors for their activities as such is structured, within the framework established by the law and the By-Laws, in accordance with the following standards and items of compensation, within the maximum limit determined for such purpose by the shareholders at a General Shareholders' Meeting, in accordance with the provisions of Article 28 of the By-Laws:

1.1 Fixed amount

Directors receive a fixed monthly amount, commensurate with market standards, according to the positions held on the Board and the Committees thereof. It is stated for the record that, as of the date hereof, provision is made for payment of a fixed amount for sitting on the Board of Directors, the Executive Commission and advisory or control Committees, on the terms and conditions described below.

1.2 Attendance fees

Directors are entitled to receive specified amounts as attendance fees. Notwithstanding the foregoing, as of the date hereof, the Directors only receive fees for attending the meetings of the advisory or control Committees, as described below.

Currently, the Directors, in their capacity as such, do not receive any compensation as pension or life insurance, nor do they participate in compensation plans linked to the listing price of Telefónica shares, even though such form of compensation is contemplated in the By-Laws of the Company.

In addition, it should be noted that some Directors are members of i) certain boards of some subsidiaries and affiliates of Telefónica, and receive the compensation established by such companies for their directors, and ii) various Territorial Advisory Councils and the Advisory Council of the Corporate University, and receive the compensation established for such duties.

As explained above, since September 2007, members of the Board who are executives of the Company other than the Chairman only receive compensation for the performance of their executive duties, pursuant to the terms of their respective contracts.

2. Structure of the compensation of executive Directors

The compensation payable to executive Directors for the performance of executive duties for the Company is structured as follows:

2.1 Fixed compensation

This part of the compensation is determined according to the competitive level in the market taken as a reference, and the individual contribution of the executive Director.

2.2 Variable short-term (annual) compensation

A significant portion of the compensation of Directors performing executive duties for the Company is variable, in order to strengthen their commitment to Telefónica and motivate their performance. The parameters normally used as a reference for variable annual incentives are:

- Compliance with and achievement of the objectives established at the Group level.
- Evaluation of individual performance, according to the duties and objectives established for each executive.
- The review and weighting of other elements and qualitative circumstances linked to the performance of the duties and the individual powers of each position.

2.3 Variable medium- and long-term compensation

The Company also makes provision for the implementation of incentive schemes linked to the achievement of medium or long-term objectives, in order to foster the retention and motivation of executive Directors and alignment with the sustained maximization of the value of Telefónica over time.

These schemes may include the delivery of Telefónica shares or of options thereon or of compensation rights linked to the value thereof. The application of such compensation systems shall be approved by the shareholders at a General Shareholders' Meeting, who shall determine the value of the shares taken as a reference, the number of shares to be delivered to each Director, the exercise price of the option rights, the duration of such compensation system and such other terms as they deem appropriate.

As of the date hereof, there are two variable long-term compensation plan in effect:

- (i) The "Performance Share Plan" approved at the Annual General Shareholders' Meeting of Telefónica held on June 21, 2006, whose basic terms are described in sub-section V.2.2. below, and that in July 2010 entered into its fifth and last cycle, for which purpose the shares for such cycle were allocated.

- (ii) The "Global Employee Share Plan" approved at the Annual General Shareholders' Meeting of Telefónica held on June 23, 2009, an incentive plan for the purchase of Telefónica shares directed towards employees of the Group at the international level (including management personnel as well as the executive Directors of Telefónica). This Plan allows employees to acquire Telefónica shares with the Company's commitment to deliver a certain number of Telefónica shares to participants therein without charge, provided that they meet certain requirements. Employees within the Plan may acquire Telefónica shares by means of monthly contributions of up to 100 euros (or the equivalent thereof in local currency), with a maximum of 1,200 euros over a period of twelve months (purchase period). If an employee remains with the Telefónica Group and holds the shares for another year, from the end of the 12-month Purchase Period (the consolidation period), such employee shall have the right to receive one free share for each share that they have acquired and held through the end of the consolidation period.

Finally, and as indicated above, the Company is currently analyzing the possible commencement of new long-term compensation plans. Pursuant to studies being carried out in this area, the Board of Directors might consider proposing the adoption of appropriate resolutions in this regard at the next Annual General Shareholders' Meeting. If this occurs, the details, terms and conditions of such possible plans will be reflected in the proposed resolutions that the Board of Directors submits to the shareholders at such General Shareholders' Meetings.

2.4 Benefits

Executive Directors participate, as part of their in-kind compensation, in general health and dental insurance, life insurance and disability insurance plans. They are also participants in pension/retirement plans. These benefits are entirely in line with existing market practices.

In any event, at the end of each fiscal year and depending on the level of compliance with the budget, the Nominating, Compensation and Corporate Governance Committee reviews the situation and, accordingly, proposes to the Board of Directors the compensation solutions for all of the compensation items discussed in this sub-section 2.4 that best fit the new circumstances in each case.

2.5 Basic terms of the contracts of executive Directors: termination, non-competition and exclusivity agreement

The contracts of executive Directors and some of the members of the Company's management team in general provide that they shall be entitled to receive the financial compensation described below in the event of termination of the relationship for a reason attributable to the Company, and in some cases also due to the occurrence of objective circumstances, such as a change of control in the Company. Conversely, if the termination of the relationship occurs because of a breach attributable to the executive Director or manager, or results from his/her own free decision, s/he shall not be entitled to any compensation. However, it should be noted that, in certain cases, the compensation that executive Directors are entitled to receive under their contract does not result from the application of these general standards but from their personal and professional circumstances and the time when the contract was signed. The financial compensation agreed in the event of termination of the relationship, where appropriate, consists of a maximum of three times annual salary and an additional payment according to the director's length of service for the Company. Annual salary amounts consist of the last fixed compensation and the arithmetical mean of the sum of the last two annual variable compensation payments received according to their contract.

As regards the agreement on non-competition and exclusivity, pursuant to the provisions of Section 8.3. of Royal Decree 1,382/85, which governs the employment relationship with senior management, contracts executed with executive Directors include a non-competition agreement that applies following the termination of the contract. Such agreement provides that, upon termination of such senior management contract and for the term of the agreement, the executive Director may not render services, directly or indirectly, for his own account or on behalf of third parties, personally or through nominees, to Spanish or foreign companies whose business is the same or similar to that of the Telefónica Group.

The above-mentioned agreement not to compete has a duration of one year following the termination of the contract for any reason. There is an exception for events of dismissal that is improper or void without reinstatement as declared by final judicial decision, arbitral award or administrative ruling (without the possibility of appeal), in which case the executive Director shall be released from the agreement not to compete.

The contracts of the executive Directors also prohibit during the term thereof the signing (whether directly or through intermediaries) of other employment, commercial or civil contracts with other companies or entities that engage in activities similar in nature to those of the Telefónica Group.

Their employment relationship continues to be and is declared to be compatible with the holding of other representative and management positions and with other professional situations s/he may attend to at other entities within the Telefónica Group or at any other entities unrelated to the Group, with the express knowledge of the Board of Directors of Telefónica or of the Chairman thereof.

V. Directors' Compensation

Below is a description of the compensation established and received by the Directors during fiscal year 2010, both as Directors and for the performance of executive duties, where applicable.

1. Compensation of the Directors for their activity as Directors

In fiscal year 2007, the Nominating, Compensation and Corporate Governance Committee, complying with the duties assigned to it and based on updated market information, conducted a review of the standards for distribution of compensation established for the Directors of the Company for their mere status as such, and proposed to the Board of Directors that the fixed annual amount corresponding to the Directors for sitting on the Board of Directors, the Executive Commission and the advisory or control Committees of the Board be reviewed, since until then there had been no change in the amount established in financial year 2004.

Such distribution of compensation, approved by the Company's Board of Directors in 2007, was not modified during 2010 and has remained in effect through the date hereof.

1.1 Fixed amount

Accordingly, and pursuant to the resolution adopted by the Board of Directors, set forth below are the amounts established as fixed compensation for sitting on the Board of Directors, the Executive Commission and the advisory or control Committees of Telefónica, which have been in effect since March 2007 and did not undergo any change during fiscal year 2010:

Position	Board of Directors	Executive Commission	Advisory or control Committees
Euros			
Chairman	300,000	100,000	28,000
Vice Chairman	250,000	100,000	-
Member:			
Executive	-	-	-
Proprietary	150,000	100,000	14,000
Independent	150,000	100,000	14,000
Other external	150,000	100,000	14,000

1.2 Attendance fees

As mentioned above, the Directors do not receive any kind of fees for attending meetings of the Board of Directors or of the Executive Commission, and only receive the fees established for attending meetings of advisory or control Committees. The amount established for such item is 1,250 euros per meeting.

1.3 Summary of the total compensation received by the Directors for their activity as Directors in fiscal year 2010

The table below contains an itemized description of the compensation and benefits received by the Directors of Telefónica in their capacity as members of the Board of Directors of Telefónica during fiscal year 2010:

Directors	Board	Executive Commission	Other Committees of the Board		Total
			Fixed	Fees	
Amounts in euros					
Chairman					
Mr. César Alierta Izuel	300,000	100,000	-	-	400,000
Vice Chairmen					
Mr. Isidro Fainé Casas	250,000	100,000	-	-	350,000
Mr. Vitalino Manuel Nafría Aznar	250,000	-	56,000	26,250	332,250
Members					
Mr. Julio Linares López	-	-	-	-	-
Mr. José María Abril Pérez	150,000	100,000	14,000	3,750	267,750
Mr. José Fernando de Almansa Moreno-Barreda	150,000	-	56,000	26,250	232,250
Mr. José María Álvarez-Pallete López	-	-	-	-	-
Mr. David Arculus	150,000	-	28,000	11,250	189,250
Ms. Eva Castillo Sanz	150,000	-	42,000	23,750	215,750
Mr. Carlos Colomer Casellas	150,000	100,000	56,000	23,750	329,750
Mr. Peter Erskine	150,000	100,000	56,000	36,250	342,250
Mr. Alfonso Ferrari Herrero	150,000	100,000	106,167	48,750	404,917
Mr. Luiz Fernando Furlán	150,000	-	14,000	3,750	167,750
Mr. Gonzalo Hinojosa Fernández de Angulo	150,000	100,000	98,000	51,250	399,250
Mr. Pablo Isla Álvarez de Tejera	150,000	-	84,000	18,750	252,750
Mr. Antonio Massanell Lavilla	150,000	-	70,000	31,250	251,250
Mr. Francisco Javier de Paz Mancho	150,000	100,000	56,000	16,250	322,250
Total	2,600,000	800,000	736,167	321,250	4,457,417

In addition, the compensation received by the Directors of Telefónica for membership in the various advisory or control Committees during fiscal year 2010 is specifically set forth below.

Directors	Audit and Control	Nominating, Compensation and Corporate Governance	H.R., Reputation and CR	Regulation	Service Quality and Customer Service	International Affairs	Innovation	Strategy	Total
Amounts in euros									
Mr. César Alierta Izuel	-	-	-	-	-	-	-	-	-
Mr. Isidro Fainé Casas	-	-	-	-	-	-	-	-	-
Mr. Vitalino Manuel Nafría Aznar	26,500	-	16,500	21,500	-	17,750	-	-	82,250
Mr. Julio Linares López	-	-	-	-	-	-	-	-	-
Mr. José María Abril Pérez	-	-	-	-	-	17,750	-	-	17,750
Mr. José Fernando de Almansa Moreno-Barreda	-	-	-	21,500	-	33,000	-	27,750	82,250
Mr. José María Álvarez-Pallete López	-	-	-	-	-	-	-	-	-
Mr. David Arculus	-	-	-	20,250	-	19,000	-	-	39,250
Ms. Eva Castillo Sanz	-	-	-	20,250	17,750	-	-	27,750	65,750
Mr. Carlos Colomer Casellas	-	21,500	-	-	16,500	-	41,750	-	79,750
Mr. Peter Erskine	-	24,000	-	-	-	-	26,500	41,750	92,250
Mr. Alfonso Ferrari Herrero	26,500	38,000	19,000	20,250	17,750	19,000	-	14,417	154,917
Mr. Luiz Fernando Furlán	-	-	-	-	-	17,750	-	-	17,750
Mr. Gonzalo Hinojosa Fernández de Angulo	40,500	24,000	19,000	-	19,000	19,000	-	27,750	149,250
Mr. Pablo Isla Álvarez de Tejera	-	24,000	14,000	35,500	14,000	-	15,250	-	102,750
Mr. Antonio Massanell Lavilla	26,500	-	17,750	-	33,000	-	24,000	-	101,250
Mr. Francisco Javier de Paz Mancho	-	-	33,000	21,500	-	17,750	-	-	72,250
Total	120,000	131,500	119,250	160,750	118,000	161,000	107,500	139,417	1,057,417

1.4 Other amounts received for serving Companies of the Group or for the performance of advisory duties

It is also noted for record purposes that the compensation received by the Company's Directors for sitting on the boards of directors of other companies of the Telefónica Group came to 1,780,898 euros. In addition, the Company's Directors who participate in the various Territorial Advisory Councils and in the Advisory Council of the Corporate University received a total of 556,250 euros during fiscal year 2010.

2. Compensation of executive Directors

2.1 Fixed and variable annual compensation

The following table shows the changes in the fixed and variable annual compensation paid to executive Directors for the performance of their executive duties over the last two financial years:

	2010	2009	2010/2009
Amounts in euros (except percentages)			
Variable compensation ¹	8,186,448	8,058,179	1.59%
Fixed compensation	6,356,975	5,947,604	6.88%
Total salary compensation	14,543,423	14,005,783	3.84%
Percentage of total salaries represented by variable compensation	56.29%	57.53%	n/a

¹ Note: Variable compensation for a particular year corresponds to the compensation paid during such year for the performance and results of the prior fiscal year.

As regards fiscal year 2011, and as already mentioned, fixed and variable compensation will be determined according to the principles mentioned above, i.e., following standards and parameters that will allow for the loyalty, motivation and commitment of the persons performing executive duties for the Group, and also aligned with achieving the strategic and business objectives established from time to time by the Telefónica Group.

2.2 Share Plans: Performance Share Plan and Global Employee Share Plan

Performance Share Plan

As mentioned above, as part of the compensation systems established to allow for the retention and loyalty of management talent in the medium and long term, the shareholders at the Ordinary General Shareholders' Meeting of Telefónica held on June 21, 2006, approved the application of a long-term incentive plan for executives and management personnel of Telefónica and of other companies belonging to the Telefónica Group, consisting of the delivery to the participants selected for such purposes, following compliance with the necessary requirements established therein, of a specified number of shares of Telefónica as variable compensation.

The total duration of the plan originally provided for is seven years. The Plan is divided into five cycles, with a duration of three years each, with each cycle beginning on July 1 ("Commencement Date") and ending on June 30 of the third year following the Commencement Date ("Conclusion Date"). The cycles are independent of each other, with the first cycle beginning on July 1, 2006 (with the delivery of shares, if appropriate, starting on July 1, 2009) and the fifth cycle beginning on July 1, 2010 (with the delivery of shares, if appropriate, starting on July 1, 2013).

The delivery of shares is contingent upon:

- Remaining with company for the duration of each three-year cycle, although certain special conditions are established in connection with participants leaving the Company.
- The specific number of shares to be delivered at the end of each cycle will depend on the level of achievement and the maximum number of shares allocated to each Manager. The level of achievement is based on the comparison of the Total Shareholder Return (TSR), taking into account both listing price and dividends, of Telefónica shares with the TSR of a group of listed companies of the telecommunications industry which constitutes the Comparison Group (these are the companies making up the FTSE Global Telecoms Index, excluding Telefónica, at the beginning of the cycle). A maximum number of shares is allocated to each employee covered by the plan at the beginning of each cycle, and the specific number of shares that will be delivered to him/her at the end of the cycle is obtained by multiplying such maximum number by the level of achievement as of such date. Such level will be of 100% if Telefónica's TSR equals or exceeds that of the third quartile of the Comparison Group, and of 30% if such TSR equals the mean. If both amounts are the same, a linear interpolation will be made, and if it is lower than the mean, no shares will be delivered.

At the expiration of each cycle, Telefónica will deliver the corresponding shares, the specific number of which will have been determined in accordance with the conditions described above, to all Officers of the Telefónica Group participating in the plan. The part of the cost to be borne by other companies belonging to the Group who are the employers of the affected Officers will be passed on to such companies.

As regards the shares allocated to date under this Plan, the table below shows the maximum number of shares for the third, fourth and fifth and last cycles of the Plan that must be delivered (beginning on July 1, 2011, July 1, 2012 and July 1, 2013) to each of the executive Directors of Telefónica if they comply with the conditions established for such delivery:

	Maximum no. of shares Third Cycle	Maximum no. of shares Fourth Cycle	Maximum no. of shares Fifth Cycle
Mr. César Alierta Izuel	148,818	173,716	170,897
Mr. Julio Linares López	101,466	130,287	128,173
Mr. José María Álvarez-Pallete López	67,644	78,962	77,680

Pursuant to the Plan's schedule, the second cycle thereof was implemented in 2010, during which the Total Shareholder Return (TSR) for Telefónica's shares was greater than the TSR for companies with 75% of the stock capitalization of the Comparison Group, for which reason, in accordance with the general terms of the Plan, there was a delivery to the beneficiaries of this cycle all of the shares previously allocated thereto. The following table sets forth the number of shares delivered to each of Telefónica's executive Directors in implementation of the Plan's second cycle:

	No. of shares delivered First Cycle
Mr. César Alierta Izuel	116,239
Mr. Julio Linares López	57,437
Mr. José María Álvarez-Pallete López	53,204

Global Employee Share Plan

In addition, as regards the Global Employee Share Plan (Plan Global de compra de acciones para empleados) mentioned above, the three executive Directors of Telefónica have decided to participate in this Plan with the maximum contribution, i.e., one hundred euros, for twelve months. Thus, as of the date of preparation of this Report, the three executive Directors had acquired a total of 78 shares under this plan, with such Directors having the right to receive an equivalent number of shares free of charge, provided that, among other things, the shares acquired have been held for the consolidation period (twelve months following the end of the purchase period).

2.3 Benefits

In fiscal year 2006, the establishment of a Management Benefits Plan (Retirement Plan) was approved, in which executive Directors participate, funded solely by the Company, to supplement the current Pension Plan, which involves defined contributions equal to a specified percentage of Managers' fixed compensation, according to their professional levels within the organization of the Telefónica Group (annual regular contribution) and extraordinary contributions depending on the circumstances of each Manager, performed during 2006 and to be received in accordance with the conditions established in such Plan. In connection with the above-mentioned Benefits Plan, the total amount of the ordinary contributions made by Telefónica to the executive Directors during the last two fiscal years is as follows: 1,925,387 euros as of December 31, 2009; and 1,925,387 as of December 31, 2010.

In addition, the executive Directors participate in the general pension plans for the Group employees (hereinafter, the "Pension Plans") and are beneficiaries, as a part of their in-kind compensation (hereinafter, "In-kind compensation"), of life insurance with death or disability coverage and of general medical and dental insurance, in line with the benefits for the other employees of the Telefónica Group. Set forth below is the aggregate compensation received by the executive Directors for each of these items ("Pension Plan Contributions" and "In-kind Compensation") during fiscal years 2010 and 2009:

	2010	2009
Amounts in euros		
Pension Plan Contributions	25,444	25,444
In-kind Compensation ¹	117,290	100,051

¹ "In-kind Compensation" includes payments for life insurance and other insurance (general medical insurance and dental coverage).

2.4 Advisors for preparation of the Report.

As indicated above, the information and advice of the internal services of the Company and the consulting firm Towers Watson were drawn upon in the preparation of this Report.

Telefónica, S.A.
Annual Corporate Governance Report 2010

Report on the Compensation Policy of the Board
of Directors of Telefónica, S.A.

These Reports are also available at Telefónica's Internet website:
www.telefonica.com/eng

Shareholders may request copies of these Reports from Telefónica's
Shareholders Office by calling freephone 900 111 004 (in Spain),
or by email to: accion.telefonica@telefonica.es

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